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ABSTRACT

Since the publication of the seventh edition of this textbook in 1999, there have been many new developments in the education finance arena. Those changes are discussed in this eighth edition. Additional new material includes Internet resources, new exercises for further "laboratory" work, updated figures and tables, and fresh information on court cases and legislative mandates. The theme of the book remains the same: Though progress continues to be made, reform in school finance systems is still overdue. The text is intended to be a basic course in school finance for education students. School board members, school administrators, teachers, legislators, and others interested in school finance should also find the information useful. Topics covered in the text's 16 chapters include the economics of education; equitable education financing; financial plans; sources of revenue; issues of fiscal control; the role of state and federal governments in education; the influence and climate of the courts; administering the school budget; accounting; auditing; risk management; payroll policies and procedures; and the future of education financing. Each chapter contains a chapter summary, a list of assignment projects, selected readings, and endnotes. (Contains an appendix that summarizes important federal programs and an index.) (WFA)

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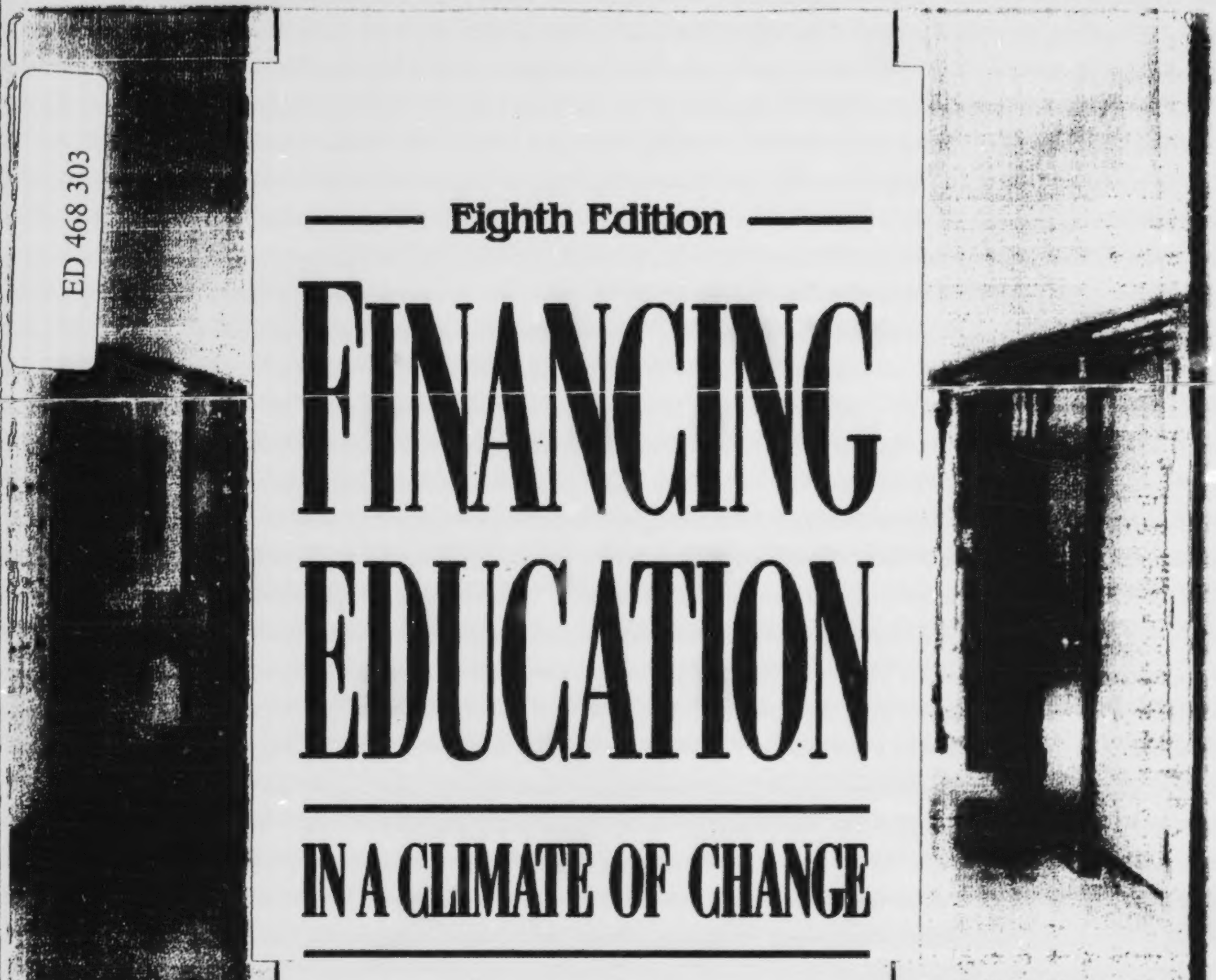

Eighth Edition

FINANCING EDUCATION

IN A CLIMATE OF CHANGE

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EIGHTH EDITION

Financing Education in a Climate of Change

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Allyn and Bacon
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CONTENTS

Preface xi

1 The Economics of Education 1

Economics and Social Progress 3
Education: An Important Industry 4
Resource Allocation to Education 8
Education as Human Capital 14
Creation of Wealth and Education 19
Increasing Expenditures and the Economy 19
Noneconomic Benefits of Education 20
Education Produces External Benefits 21
Cost-Quality Relationship in Education 23
Summary 26
Assignment Projects 27
Selected Readings 27
Endnotes 28

2 Financing Education Adequately 30

Education Deserves Higher Priority 35
The Increasing Costs of Education 36
The Consequences of Not Educating People 44
Education and Accountability 51
Underinvestment Is Poor Economy 53
Summary 55
Assignment Projects 55
Selected Readings 56
Endnotes 56

3 Financing Education Equitably 59

Inequalities in Financing Education 60

Equity: An Objective of School Finance Reform 62
Equity at the School Level 65
Measures of School District Wealth 72
Historical Influences on Equity 76
The Equalization Principle 80
Improving State Equalization Practices 80
Foundation Program Variations 81
The Impact of Average Daily Attendance on Equity 85
Confusion in Current School Finance Practices 86
Summary 87
Assignment Projects 88
Selected Readings 90
Endnotes 90

4 Patterns for Developing School Finance Systems 92

Concern for Equal Rights 92
Full State Funding 93
District Power Equalization 96
Property Reassessment and Local District Revenues 102
Determining the Best Finance Plan 102
Equalization of Services 103
Emphasis on Weighting Factors 104
Principal Types of Weightings 105
Summary 112
Assignment Projects 113
Selected Readings 114
Endnotes 115

5 Sources of Revenue 116

The Taxation System 116
Characteristics of a Good Tax System 118
Criteria for Evaluating Tax Structure 122
Taxes for Education 123
Property Tax 123

Income Tax 127
Sales Tax 128
Sumptuary Tax 130
Severance Tax 130
Potential New Taxes 131
Lotteries 132
Private Foundations 135
School-Business Partnerships 135
Summary 137
Assignment Projects 138
Selected Readings 140
Endnotes 140

6 Eroding Local Control 142

Diminishing Local Control 142
Decreasing Rural Influence on Education 143
Decreasing Urban Economic Advantages 144
School Districts: Basic Administrative Units 144
The Administration of Local School Districts 148
Local Fiscal Control 153
Advantages of Local Control 157
Fiscal Independence of School Districts 158
Trends in Local Taxation Practices 158
Measures of Local Taxpaying Ability 159
Local, State, and Federal Tax Responsibility 159
Summary 160
Assignment Projects 161
Selected Readings 162
Endnotes 162

7 Education: A State Function 164

Early Development of State Responsibility 165
Development of School Finance Policies 167
Developmental Stages of School Finance Theory 171

The Varying State Roles 179
State Financial Support 189
State Ability to Support Education 193
Summary 194
Assignment Projects 195
Selected Readings 195
Endnotes 196

8 Federal Interest in Education 197

Historical Role of the Federal Government 197
Federal Involvement: A Fluctuating Role 200
Federal Expenditures 203
Limited Federal Aid: A Reality 204
Federal Fiscal Advantages and Disadvantages 205
Distributing Federal Funds 206
Federal-State-Local Finance Sharing 208
Federal Aid in Lieu of Taxes 210
Increased Governmental Services 210
The Future of Federal Aid-to-Education Programs 212
Department of Education 213
Summary 215
Assignment Projects 216
Selected Readings 216
Endnotes 217

9 The Influence and Climate of the Courts 218

Court Decision Guidelines 219
Power of the Courts 221
Equal Protection and the Courts before 1971 222
Serrano v. *Priest* (1971) 222
Consequences of *Serrano* 224
San Antonio Independent School District v. *Rodriguez* (1973) 226
State Court Cases 228
Complexity of Judicial Review 230

Meeting Court Mandates 232
Court Cases and Equity 233
Principles Established by Court Decisions 237
Pressure for Reform 237
Finance Studies and Reform Efforts 238
Factors Limiting School Finance Reform 239
California's Proposition 13 239
Finance Reform or Tax Reduction 241
Summary 241
Assignment Projects 242
Selected Readings 242
Endnotes 243

10 Public Funds and Nonpublic Schools 246

A Controversial Issue 246
Nonpublic School Enrollments 248
The Law and Church-State Relations 249
Intervention by the Courts 251
Educational Choice 255
Controversy Not Solved 262
Summary 263
Assignment Projects 263
Selected Readings 264
Endnotes 265

11 Financing School Facilities 267

Complete Local Support 268
Factors Restricting Local Responsibility 269
State Capital-Outlay Financing 270
The Federal Government and Capital Outlays 272
State Support 273
Debt Limitations Liberalized 276
Equity in Financing Educational Facilities 276
Equalization of School Building Costs 277

Capital-Outlay Finance Plans 278
School Bonding Practices 281
Impact Fees 288
Other Alternatives 289
Summary 289
Assignment Projects 290
Selected Readings 291
Endnotes 291

12 Administering the School Budget 293

Evolution of Budgetary Practices 293
The Budget 294
Administration of the Budget 300
Budgeting at the School Level 303
School/District Coordination 306
Systems of Budget Administration 310
Challenge of Leadership 315
Summary 316
Assignment Projects 317
Selected Readings 317
Endnotes 318

13 Accounting and Auditing 319

The School Accounting System 320
Standard Accounting Practices 322
The Use of Clearing Accounts 324
Encumbrance Accounting 325
Cost Accounting 326
Accrual Accounting 326
Computerized Accounting Systems 327
Receiving and Depositing Funds 328
Expending School Funds 328
Financial Reports 329
Auditing 330

10

Protecting School Funds 334
Summary 335
Assignment Projects 336
Selected Readings 336
Endnotes 337

14 Business Aspects of the School Community 338

The Business Office 338
Supplies and Equipment 340
Purchasing 341
Supply Management 345
Risk Management and Insurance 347
Insurance 350
Transportation 356
School Food Services 357
Summary 359
Assignment Projects 360
Selected Readings 361
Endnotes 361

15 Human Resources and School Finance 363

Expanding Role of Human Resource Administration 364
Issues in School Human Resources 366
Salary Schedules and Merit Pay 370
Trends in Salary Scheduling 373
Benefits 374
Teachers and School Finance 377
The Changing Assignments of Teachers 378
Administrative and Supervisory Salaries 380
Noncertificated Personnel Salaries 381
Payroll Policies and Procedures 381
Current Certification Issues 383
Early Retirement 384
Summary 385

Assignment Projects 385
Selected Readings 386
Endnotes 386

16 The Road Ahead in School Finance 388

The Unpredictable Future of Public School Finance 390
Unresolved Issues 391
Some Characteristics of Educational Structure 392
School Finance Goals 393
The Challenge 394
Summary 395
Selected Readings 396
Endnotes 396

Appendix: Some Important Federal Programs 397

Index 409

PREFACE

The flurry of change continues. Since the publication of the seventh edition of *Financing Education in a Climate of Change,* there have been many new developments in the educational finance arena. The changes that have occurred in a brief three-year span are discussed in this eighth edition, making it a valuable and current resource. Again, actions in the courts have been instrumental in restructuring the thinking of legislators and educators. The Louisiana case of *Mitchell* v. *Helms* saw the higher state court reversing a lower court decision. The ruling allows student services, transportation, and equipment purchased with public funds to be utilized in nonpublic parochial schools. The court concluded that the law "neither results in religious indoctrination by the government nor defines its recipients by reference to religion." The Supreme Court in Ohio determined that the state finance system "failed to meet the Ohio 'thorough and efficient' standard for financing schools," and the Wisconsin Supreme Court ruled in a more complicated case that dealt with the state finance formula as well as the issue of the fundamental rights of students.

The choice movement continues to be volatile. Some voucher programs have been established, allowing students at private schools to receive public funds. Of note, Florida was the first state to adopt a voucher program statewide, which was later declared unconstitutional by the courts. The U.S. Supreme Court refused to hear a case dealing with tax deductions for both private and public schools. California and Michigan presented a voucher initiative to the voters. Of the various choice programs, charter schools have been most readily accepted by the public, with varied reports of success, while public interest in providing public funds for tuition for students in private/parochial schools is waning.

The inadequacy of school facilities that need major renovations and the need for new classrooms has gained attention through survey information provided by the National Education Association and presented to Congress. Cost estimates are placed at over $3 billion. The National Center for Education Statistics updated the General Accounting Office (GAO) report of 1995, with an analysis in 2000 that showed that three-quarters of the schools surveyed needed to spend some money on repairs, renovations, and modernization. Bills have been proposed at the federal level to assist in the crisis; however, little money has been appropriated. State legislatures are making attempts to find ways to address the problem, including the means to provide equality for students and taxpayers.

Recent research studies in school finance have centered on equity *among* schools within a district—that is, equity on a per-pupil basis at that level. Some feel that accountability can be attached to the data, whereas district and local school personnel indicate that little significant information would be gained and providing the data would be time consuming. The state of Oregon embarked on a three-year study to define areas for comparing individual schools in various categories, including per-pupil expenditures.

The federal government continues to play a role in education. Politics is a sophisticated part of the federal involvement, which makes it necessary to sift through the rhetoric and assist students in understanding the implications it has for school finance. The seventh edition of this book reported that the federal government was promoting a national testing program that would require a large expenditure of money—eventually from local districts. Although there is much discussion about education in Congress, the end result has remained about the same: limited resources of about 6 percent of state and local school budgets.

This eighth edition has an added feature that will be very beneficial for both students and instructors. It provides many weblinks as references, as well as identifies resources on the Internet, which will help students locate current and valuable information for reports and term papers. In addition, some relevant exercises are available for further "laboratory" work by accessing the Allyn and Bacon Educational Administration Supersite (www.ablongman.com/edadminsite). These topics and exercises are in addition to those found at the end of each chapter of the text.

In this eighth edition, figures, tables, court cases, legislative mandates, and other current topics have been updated, and the text maintains the integrity of the previous edition. The basic information in the text is up-to-the-minute and timely. Previous editions have proved very useful for students and instructors. The historical coverage has been extremely beneficial to both students and researchers. The court cases dealing with states' meeting constitutional muster have been carefully analyzed and remain an excellent reference. A new emphasis on the functions of the business office, including some basic information on transportation and the school lunch program, is included in this edition, and more information relevant to the local school administrator is provided. This eighth edition is again designed with the student in mind. Reports from students and instructors have indicated that the information is practical, easy to understand, and very relevant to the topic of school finance.

The theme that still permeates the text deals with the principle of equalization of education opportunity, which stands out as a dominant characteristic of U.S. education. This ideal has not in any sense been totally achieved on a nationwide scale, but increasing clarification of the principle and the emphasis by court mandates have carried it to a new point of practice in a number of states. Democracy is best served by extending to all children an equal opportunity to attend schools adequate for the achievement of self-realization, economic sufficiency, civic responsibility, and effective human relationships. Education is an investment in human capital; reform in school finance systems is still overdue, though progress continues to be made. Some of the unsolved problems of financing public education include providing high-quality education that is equitable to all students, regardless of place of residence or degree of parental affluence, and furnishing adequate funds with maximum fairness to all taxpayers.

Financing Education in a Climate of Change is intended as a text for a basic course in school finance at the graduate level. It also has great value for undergraduate students in education who are required to take a course that gives an overview of educational leadership principles. Practicing school administrators, teachers, school board members, legislators, and others interested in school finance issues will find information that will stimulate their thinking on how to finance education adequately and equitably. Since the chief school administrator is responsible for the overall school program and the financial reporting of the school district, some aspects of school business administration are included in the book.

Again, as with the previous seven editions, we thank readers, instructors, and students who have made comments for the improvement of this edition, and those who have graciously allowed the use of some of their materials. This book is a cooperative effort among scholars, experienced editors and publishers, insightful reviewers, researchers, computer consultants, and designers. We thank all whose suggestions have improved this work. Our gratitude is extended to reviewers Lizbeth Gillette (California University of Pennsylvania), Marilyn Hall (Saint Leo University), and Joanne Newcombe (Bridgewater State College) for their valuable input and suggestions. J. D. Willardson's contributions to the book and Burt Garfield's invaluable assistance in providing computer software information are greatly appreciated. In addition, we especially thank Lynda Griffiths at TKM Productions and Arnis Burvikovs, Matthew Forster, and Annette Joseph at Allyn and Bacon. Continued gratitude is given to the late Percy Burrup, who made the foundation of this work possible. His influence still remains.

V. B.
R. R. G.

CHAPTER

1

The Economics of Education

For the nation to continue to prosper it must invest in human capital and that investment begins in the schools.

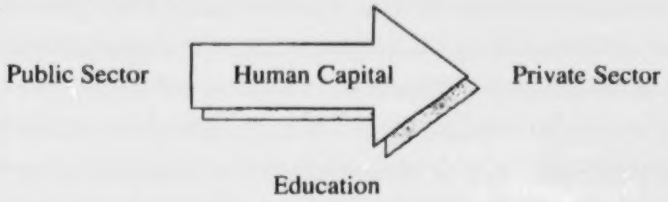
—Alan Greenspan, 2000

Education is an investment in human capital and plays an important role in helping people learn to become literate, numberate, be problem solvers, and achieve self-realization, economic sufficiency, civic responsibility, and satisfactory human relationships. As an investment, it takes capital to provide schooling for children, youths, and adults of the United States. As with any investment, there is an element of risk, and no one can be certain that recipients of the education product will achieve the maximum of their human potential.

When the United States began the twenty-first century, many Americans were wondering if education had run somewhat awry. The media was replete with information that U.S. schools were not keeping up with those in the rest of the industrial world, as measured by standardized achievement tests. For some, there was a sense of falling behind emerging national economic powers such as Japan and Germany. In the 2000 presidential campaign, both major party candidates felt that this improvement in education was the top priority for the country. Violence seemed standard in schools if one were to believe regular reports of shootings, gang warfare, and lack of respect for educational faculty, staff, and institutions. While worry about the schools was real at the dawn of the millennium, over time U.S. citizens have been affected by various educational crises: In the 1980s, it was engendered by a report entitled "A Nation at Risk"; in the 1950s, the launching of *Sputnik* raised concern about the educational prowess of the United States.

Many people were questioning the high costs of education. Education was viewed by some as an unnecessarily large industry that was not very successful in meeting the needs of Americans. Since the inflation rate had been reduced to 1.6 percent in 1998 and 2.7 percent in 1999, critics wondered why education spending was increasing at a 6 percent rate. Disapprovers believed that education was not working as it should and had resulted in an excessive tax burden and a drain on the public treasury.

Education, however, has had much to do with the remarkable social and economic development of the United States over the two centuries of its existence. The costs that are required for education are worthwhile. The skills and knowledge to move the United States both economically and socially are largely a result of the public educational system. Certain researchers maintain that there is a positive linkage between school resources and student outcomes.[1] Education is the conduit that the public sector uses to supply the human capital to the private sector that is needed to sustain its prominence in the world.

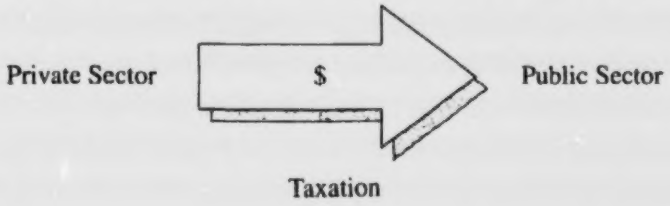


Education requires financial support in order to provide for the needs of students, human resources, facilities, equipment and supplies, and property to sustain its viability. This interconnection of education providing the human capital to engender economic strength and the economy providing funds for education is a twenty-first century reality. All over the world educational achievement and economic success are clearly linked. The struggle to raise a nation's living standard is fought first and foremost in the classroom. Certainly, no one any longer needs convincing that education matters. The jobs in industry, in manufacturing, and in services require workers that are educated.

Alan Greenspan, speaking to the nation's governors in July 2000 said the nation must invest in human capital and that it is "critical that the quality of education in elementary and secondary schools be improved."[2] He declared:

> Even the most significant advances in information and technology will not produce additional economic value without human creativity and intellect. Certainly, if we are to remain preeminent in transforming knowledge into economic value, the U.S. system of education must remain the world's leader in generating scientific and technological breakthroughs and in preparing workers to meet the need for skilled labor.... Education must realize the potential for bringing lasting benefits to the economy.[3]

Profits are generated only in the private sector of the economy. The public sector, including education, requires financial resources. Therefore, a system of diverting funds from the private sector to the public sector must exist. The most successful system yet devised to accomplish this, although far from perfect, is taxation.



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Recognition and understanding of the relationship between public education and the field of economics become more crucial as expenditures for education continue. That being true, educational leaders at all levels cannot continue to give mere fleeting glances and incidental references to fundamental economic theories and principles if they are to be effective in helping solve, or in reducing, the complex and persistent problems involved in financing education adequately and equitably. Some knowledge of economics and its partnership role with education is therefore deemed to be important for school finance students as well as practitioners. For that reason, this book begins with a brief discussion of some of the fundamental principles and concepts of economics that have practical application to the broad field of school finance.

Economics and Social Progress

There are diverse ways of measuring or rating the degree of advancement or upward progress of a society. One way is to apply the economic dimension that attempts to determine the degree or percentage of total human effort that is being diverted to production and allocation of the material goods required for survival, such as food, clothing, and shelter. This measure of human effort is then compared with that devoted to producing nonmaterial goods that make life more comfortable but are not required for survival. Societies at the low end of the social-progress continuum devote all or nearly all their efforts to producing essential material goods. As societies move up the scale of civilization, the percentage of human effort expended to produce services and goods not required for subsistence increases.

There is no valid reason or rationale that defends unlimited or surplus production and consumption of primary material goods beyond those required for survival or subsistence in any society. Most culturally advancing societies soon reach the limit in the production of material goods that are required for the absolute necessities for existence. Surpluses of durable goods for emergency purposes are often necessary, and production of these is justified before the forces of production are directed to those goods and services that are classified as luxuries. At this point, further human effort in producing necessities becomes indefensible. Consequently, effort is directed toward the production of educational, cultural, and other socially acceptable goods and services.

Thus, it appears that the greater the degree of advancement of a society, the greater its potential for producing additional goods and services, including education. Those countries that, by their lack of resources or lack of people with technical ability, must spend most of their time and effort in producing goods for subsistence and survival will have commensurately little time and ability to produce a good educational system. A report from the World Bank stated:

> Although exceptions are made, in general the emphasis in low-income countries is on the development of low-cost basic education to lay the requisite foundation of science, language, mathematics, and other cognitive skills. In middle-income countries, where first-level education is already widely available, educational quality is emphasized, and

> with it the expansion of facilities to meet the needs of an increasingly sophisticated economy. As the absorptive capacity of an economy grows, the priority tends to shift toward providing higher level technical skills, as well as developing skills in science, technology, information processing, and research.[4]

A country that strives to produce educational services is constantly increasing the range of economic productivity and affluence for itself. As stated in *The Economist:* "In the advanced economies of America and Europe, today's chief economic worry is that jobs and industries will be lost to new competition from Asia, Latin America, and Eastern Europe. It is commonplace that, among these emerging economies, the most successful are the ones that have educated most of their workers up to, and in many cases well beyond, levels typically achieved in the West."[5]

Countries that make only a minor effort in education usually produce only the material goods necessary for subsistence. The educational system thus becomes a very important result, as well as a determinant, of the social and economic progress of a nation.

Education: An Important Industry

A common and certainly defensible description of education is that it is an industry in the sense that it utilizes money and other valuable resources to develop its product. Although it is this country's largest industry, education produces only intangibles in the form of nonmaterial goods or services that are valuable but difficult to measure. It is an industry where objective data are readily available to determine its financial input but where no research or empirical study has yet found a satisfactory way to measure, or even to approximate, its total output. It is devoid of a profit motive; it is usually operated by government but dependent on private enterprise for its financial support. The United States is a world leader in education, with about 25 percent of its population involved in one way or another. With regard to expenditures, statistics from the U.S. Department of Education show that 7.3 percent of the gross national product goes toward all educational institutions.[6] This percentage has been fairly consistent since 1970 (see Table 1.1).

Produces Nonfree Services

Any college student can attest to the fact that education is not a free commodity in the economic sense. When consideration is given to the indirect costs (the income lost while attending school) as well as the direct costs (living expenses, fees, textbooks, computers, materials, and tuition), there is no need for an additional reminder that education is far from free.

As a purchaser of educational services, the student recognizes education as a consumer good, paying money for the avowed purpose of consuming as much education as possible under particular circumstances. On the other hand, because the instructor's

TABLE 1.1 Total Expenditures of Educational Institutions Related to the Gross Domestic Product: 1970, 1980, and 1990–1998

Year	Gross Domestic Product (in billions)	School Year	Total Expenditures, All Educational Institutions: Amount	Total Expenditures, All Educational Institutions: As a Percent of Gross Domestic Product
1	*2*	*3*	*4*	*5*
1970	1,035.6	1970–71	75,741	7.3
1980	2,784.2	1980–81	182,849	6.6
1990	5,743.8	1990–91	412,652	7.2
1991	5,916.7	1991–92	432,987	7.3
1992	6,244.4	1992–93	456,070	7.3
1993	6,558.1	1993–94	477,237	7.3
1994	6,947.0	1994–95	503,925	7.3
1995	7,269.6	1995–96	529,596	7.3
1996	7,661.6	1996–97	562,431	7.3
1997	8,110.9	1997–98	591,200	7.3
1998	8,466.2	1998–99	618,600	7.3

Source: U.S. Department of Education, National Center for Education Statistics, Statistics of State School Systems; Revenues and Expenditures for Public Elementary and Secondary Education; Financial Statistics of Institutions of Higher Education; Common Core of Data survey; Higher Education General Information Survey (HEGIS), "Financial Statistics of Institutions of Higher Education" survey, Integrated Postsecondary Education Data System (IPEDS) "Finance" survey, and unpublished data; Council of Economic Advisers, Economic Indicators; and National Education Association, "Estimates of School Statistics," various years. (This table was prepared July 1999.)

salary has been augmented by the accumulation of some amount of education, education is simultaneously a producer good, for it provides the economic ability (money) to satisfy wants for other goods and services.

As the college graduate receives an academic degree and moves into the world of work, no stock of accumulated material goods is evident from educational experiences. The investment has been made in nontangible goods and services that, it is hoped, will be passed on to others in the necessary process of earning a living. These services may be used and reused almost without limit and are therefore described as multiple-use goods or services. In contrast with machines, equipment, and other physical goods that depreciate with use, the durability or utility of educational services normally increases with use.

While some learning is sought and obtained for its intrinsic and cultural value, much of the purpose of education is to increase the ability of the recipient to engage in some useful occupation or profession and thus to produce other goods and services. This process is an economic one, since it provides the means to satisfy wants as a consumer as well as to produce goods and services for other consumers. An education adds to the richness of life for its recipients and widens their scope in choices of consumer goods, such as books, magazines, works of art, and musical compositions. Thus, education is literally a consumer's good as well as a producer's good.

Stimulates Economic Growth

Although interest in the economics of education is said to date back to the time of Plato, its close relation to the financing of education went almost unnoticed in this country until about the middle of the twentieth century. Since that time, numerous economists and educators have given in-depth consideration to this relationship. They have established and documented the fact that increases in education bring increases in productivity and gains in social, political, and economic life. They have come to support the idea that the costs of education are, in reality, necessary and real investments in human capital.

Since educational institutions collectively are this country's biggest disbursers of public money, and since education is the greatest contributor to the production and consumption of many kinds of essential services, the positive relation of education to economic growth is real and obvious. This close and interdependent relationship has been understood by educators and economists for some time.

The first modern-day school finance writer to give emphasis to the economics of education was Charles S. Benson. His book received popular acceptance and established a relation between education and economics that has been recognized by most school finance writers since that time. His point of view is summarized here:

> Throughout the world, both philosophers and men of affairs appear to have reached consensus on this point: education is a major force for human betterment. Quality of education is intimately related to its financing. How much resources are made available, and how effectively these resources are used stand as crucial questions in determining the degree to which education meets the aspirations that people hold for it.[7]

It is now a seldom disputed fact that expending adequate funds for education will provide economic dividends to society. Quality education is expensive, but it brings commensurate benefits to individuals, families, business and professional people, and social agencies and institutions. Although direct and objective facts are difficult if not impossible to obtain, economists generally agree that adequate expenditures for education lead to increases in markets for goods and services, increases in business and industrial sales, and increases in the buying power of individuals and households. Such expenditures also tend to reduce the production costs of goods and services, to increase and hasten the adoption of technological changes, and to improve the performance skills and efficiency of the work force.

A Public-Sector Responsibility

Education can be produced in the private sector of the economy as well as in the public. The educational system is largely produced by government at public expense, but many schools are sponsored by private individuals, companies, or churches. In certain other countries, education is largely a product of the private sector.

Schools in the private sector operate under a different set of theories and rules than those in the public sector. The organizations and institutions in the private sector, by the nature of their relations to their clientele, are controlled and changed more readily than those in the public sector. Consumer requirements, and the ability of the private school to meet them, largely determine how much financial support is available for future operation. The desires and even the whims of potential purchasers are soon met in the private sector, for to ignore such would mean a curtailment of sales and a loss of profits. Inefficiency, incompetence, or other internal deficiencies soon make themselves known and usually bring changes in schools in the competitive marketplace.

Government institutions, including public schools, do not react as quickly or as obediently to external pressure and public criticism as their counterparts in the competitive world. Compulsory school attendance laws, taxation laws, and social pressures combine to erode the effect of dissatisfaction and clamor for improvement of government-sponsored schools. Since education is vital to the best interests of the individual, the state has the right and the responsibility to establish and enforce compulsory attendance, and parents have the responsibility of seeing that their children take advantage of the schooling provided.

The local, state, and federal governments have the power to use tax funds to pay for their part of the education pattern. Pluralism is a hallmark U.S. constitutional order, and in such as organization it may be difficult to efficiently allocate resources for education. This raises the issue of federalism—the vertical diffusion of power among the three levels (local, state, federal) of government. Most believe that public education is still primarily a state responsibility with some degree of local control. There is considerable variation from community to community in the quality of the schools, the needs of the students, and the availability of resources. For this reason, states should provide guidance and resources to help local districts and schools meet their goals.[8] State and local leaders are concerned about federal encroachment, which is the antithesis to the creation of the United States Department of Education: "There establishment of the Department of Education shall not increase the authority of the Federal Government over education or diminish the responsibility for education which is reserved to the States and the local school systems and other instrumentalities of the States."[9]

In this interacting, cooperating, and sometimes confusing education enterprise, some recipients may receive advantages over others; other recipients may suffer disadvantages. This is inevitable in a process where there are innate and fundamental differences in student ability, interest, and desire to learn—as well as differences in the many other factors that make up America's school milieu. In the country's federal system, public education is designed to produce equity (fairness) in the treatment of students. Although the terms are often used interchangeably, *equity* and *equality* are not synonyms. Although some degree of inequality will exist, it should be minimized.

In the twenty-first century a new era may be developing. The country, perhaps, is committed to making education one of excellence for all children throughout the land. The public sector must accept the responsibility for proper distribution of education's financial resources.

Resource Allocation to Education

Although the affluence of the people and the abundance of resources of the United States are well beyond those of most other countries, they have limits. The spiraling costs of the services of government and its institutions have sharpened competition for the tax dollar more than ever before. As an important economic service with increasing responsibility to the people of the nation, education would seem to have established itself as a strong and deserving competitor for the economic resources of each state responsible for its support.

A new focus on education may temporarily draw attention from other areas, but educators will have to provide a continued impetus to secure its rightful share of the available economic resources. Since the nonprofit public sector has no way to obtain funds directly for establishing and operating the social, cultural, and governmental institutions (including schools) that it sponsors, money must be diverted from the private sector to the public sector by some process of taxation. The academic disciplines of education, economics, and political science are all vitally concerned with the process and the results of such diversion. One of the chief problems of government is to determine how much of private-sector income can and should be diverted to the public sector. Gardner emphasized, "As we move into the twenty-first century...our states *will accept* responsibility for adequate and equitable distribution of financial resources."[10]

A Political Responsibility

Allocating economic resources to education is one of the primary responsibilities of local, state, and federal lawmaking bodies. Procedures and guidelines they have used to determine such allocations in the past have been ambiguous and nonscientific. In the absence of objective guidelines for determining the proper balance of resource needs of public-sector institutions and agencies, government agencies usually base allocation decisions on factors such as organizational objectives and needs, the potential contribution and overall influence of each institution, and ordinary political expediency. Education tends to suffer comparatively in such allocations because it is unable to show and measure in objective terms the increased output provided with additional units of input.

Resource-allocating bodies may use some presumed measurement of educational outcomes as the determinant for education's share of limited resources. Such measurements are often more imaginary than real, for many of the results of a good educational program cannot be measured objectively. One of the basic problems education faces in its request for greater resource input is the common belief that it is so complex that members of lawmaking organizations cannot understand its purposes, needs, and contributions to society. Then, too, economy-minded legislators often are quick to minimize or eliminate allocations of scarce resources to high-cost programs, for they do not understand their contribution to the overall educational program.

The reluctance, and at times the inability, of educators to communicate with the politicians in lawmaking bodies has added to the allocation puzzle. Fortunately, the educational establishment now recognizes that decisions concerning resource allocation are made in the political arena.

Legislative leaders often find themselves under pressure from economic and educational advocates as they attempt to make decisions to establish and support public educational institutions. They understand only too well that education as an industry does not and cannot operate in a vacuum without reference to economics, politics, or related disciplines.

To become effective, educators must be cognizant of the philosophy of individual politicians. Educators must understand that politicians are their clients as much as students are. Whether it be a school board member making programmatic or salary decisions, a legislator determining the level of school support, a member of Congress, or the president of the United States, each is influential in determining fiscal matters that affect the educational program.

Economic Philosophies

A cursory look at the political and economic philosophies in relation to education of Karl Marx, Adam Smith, John Maynard Keynes, John Kenneth Galbraith, and Milton Friedman illustrates that the recommended role of governments in economics varies from the central government having absolute control (Marx), to government assisting in cases of economic depression (Keynes), to more support of the public sector and more government resources being derived from the affluent private sector (Galbraith), to government intervention generally hampering progress (Friedman), to limiting government (Smith) (see Table 1.2). Each of the philosophers feels that education is important; the differences involve the *how* and the *what*. According to Marx, education should be free, state controlled, and financed by centralized government. It exists to train citizens in the value system of the government. Keynes and those who espouse his philosophy believe it is a governmental duty to provide complete education. Galbraith maintains that education is vital for technical and human advancement and must be supported to a more significant level by the resources that are abundant in the affluent private economy. Friedman sees government as overcontrolling education; he believes the solution is the individual's freedom to choose what education is most suitable, using a voucher to shop for that education. Smith sees education as one of the essential services of government.

The five philosophers all see the need for and the power of education. When seeking financial support for the schools, educators must understand the diverse philosophies in politics and communicate across the political spectrum by using concepts that resonate within the particular politician's philosophy. More and more educational leaders understand that all major social forces must not only recognize each other's objectives and circumstances but also work cooperatively to solve one another's problems.

TABLE 1.2 Political and Economic Continuum

	Marx	Keynes
Government or Economy	*Communist*	*Government Intervention*
Role of Government	Central government has total control; sets policy and goals in all aspects of society; strong bureaucracy.	Government will help the economy in depression or recession by public works projects, etc. Deficits accumulated thereby will be repaid during good economic times.
Educational Perspective	Free public education, controlled and financed by centralized government. Trains in value system of the government.	There is an inequitable distribution of wealth and income.
Taxes	Highly graduated progressive tax on income.	Progressive tax to redistribute wealth so the poor can spend more and the wealthy save less.
Property	Abolition of private ownership of property.	Private property essential; however, government is the most important element of the economy.
Vantage Point in History	Reaction to exploitation of workers in the Industrial Revolution. History is determined by economic conditions.	Predicted ruin of Europe's economy because of harsh economic conditions imposed on Germany by the Treaty of Versailles. Capitalism usually better than alternatives. Ideas included in F.D.R.'s New Deal in 1930s. U.S. was to spend its way back to prosperity.

Galbraith	**Friedman**	**Smith**
Liberal	*Conservative*	*Capitalist*
Government is a dominant factor in society. Limit overproduction by private sector. Control wages, prices. Provide affluence for all citizens. Perhaps reject conventional wisdom.	Government interventions have hampered programs. Should reduce bureaucracy because people who are free to choose without bureaucratic influence create a better quality of life.	The invisible hand of competition will run the economy in a natural way. Government should govern only—no government interference in business or trade, just preserve law and order, defend the nation, enforce justice. Least government is best.
Education is vital for technical advances and growth. Education must be encouraged for future research and development in technology.	Government overgoverns education. Voucher system for education. Education is essential in maintaining free enterprise, political freedom, and open economy.	Education is one of the essential government services to make capitalism work; competition between schools. Local education control, compulsory education at elementary level.
Public economy is starved, private economy is bloated. Tax the affluent society (private sector) more to provide needed public services, education, etc.	Private economy is starved; public economy is bloated. Tax reform encourages investment in private sector. Negative income tax should replace welfare.	Taxes should reflect ability to pay, not be arbitrary; convenient and efficient. Need to provide for essential government services.
Private ownership has been oversold through advertising; the affluence of private sector has cheated public needs. Fiscal policy is essential.	People must be free to own and exchange goods. Monetary policy, not fiscal policy, is essential in shaping economic events.	Private property is essential to freedom; if state owns, freedom vanishes.
Conventional wisdom always in danger of becoming obsolete. Rejects orthodox views of economics. Quality of life, not gross national product, should be the measure of economic achievement.	Freedom is more important than prosperity. However, freedom is the best environment for economic prosperity. Rejects Keynesian fiscal policy; monetary policy leads to stability.	Wrote *The Wealth of Nations* in 1776, but its major impact came in early 1800s. Reaction to British mercantilism; tariffs and limited "free" trade.

Until recent years, educators, economists, and political leaders have been largely indifferent to each other's needs and problems.

The Scope of Educational Services

In the competitive market, consumers of economic goods and services generally determine, by their ability and willingness to purchase, just what a particular industry will make available for sale—within the limits of the supply of resources. Demands for goods and services are determined by those who consume such products directly. Public and individual demands for education, however, are unlike the demands for most other goods and services. In education, these must originate from those who pay for its services but who do not usually receive its benefits directly. The quality and quantity of educational services are determined in large measure by the pleasant or unpleasant experiences adults have had with education in their own lives as well as by how such demands will affect their share of the tax cost. The degree of satisfaction of the direct recipients of education is too often secondary to the degree of tax burden sustained by those who determine the extent of such services available. Thus, educational expenditures are often determined in a right-to-left direction—in much the same way as a customer who is short of cash might approach the menu in a luxurious restaurant.

The individuals who determine the supply of education to be made available often have no family or other direct relationship with any of the individuals who are its potential consumers. For that reason, board members and others responsible for educational supply may approach school finance with a neutral or even a negative attitude, for their decisions may be made in terms of their own real or imaginary financial tax burden to the exclusion of more relevant and necessary educational needs. This often results in exaggerated criticism of increases in educational expenditures, especially in areas where there is little objective evidence of commensurate results. Regular and substantial increases in input are necessary, however; teachers and others who spend their time in educational activities must be protected against the ravages of inflation and increasing living costs, even though only small increases in their productivity are possible.

The Marginal Dollar Principle

How does a free society determine the amount of resources it will spend for such an important service of government as education? Theoretically, it would be done in the same way an individual decides how much money will be spent for a particular good or service in a free market—by considering the marginal utility of that good or service. The utility is determined in large measure by the value prospective consumers place on the goods or services to be purchased and by the number of such goods or services already in their possession or available to them.

The usefulness and utility of additional units of a particular item usually decrease as they are added; for example, a third car usually has less real value to a purchaser than a second one, and the second car has less value than the first. Similarly, the public may place high value on the purchase of elementary education for all its children at public expense and give high priority to this undertaking, but it would put less emphasis on education for four years of high school and still less emphasis on providing funds for higher education. The public may feel, too, that an expenditure of $8,000 per pupil per year is highly desirable, that an additional $1,000 might be less desirable, and that a further addition of $1,000 might be undesirable or unwise—for it might require taking funds away from some other, seemingly more important, goods or services.

Marginal utility thus becomes a measure of desire for additional units of a good or service. The marginal dollar is the dollar that would be better spent for some other good or service. Thus, allocating funds for education becomes a problem of determining at what point an additional amount proposed as an expenditure for education would bring greater satisfaction or worth if it were spent for other goods or services.

Allocating resources by this method is difficult, as McLure noted:

> The theory of marginal utility cannot be applied as clearly in education as in some other operations. It is difficult, for example, to determine when the addition of one more staff member may or may not produce results which would be equal to or less than the value of the money paid the person. In industry, however, the addition of one worker would be at the margin if the increased income would be equal to the cost of the worker.[11]

Economists who are becoming more involved in studying this relationship in education are classifying the concept as *value added.*

The Point of Diminishing Returns

Undoubtedly, there is a point of diminishing returns in the expenditure of funds for education—a point beyond which additional expenditures will yield very little or no additional educational returns. Where this point is—in terms of expenditures per pupil—has not yet been determined. Most of the schools of this country have been forced to operate on a financial level far below such a theoretical point.

Determining the relation of the per-pupil expenditures for education to the quality of the product has proved to be a popular, but elusive, research subject for many years. Ellwood P. Cubberley, a researcher in the field of education, was concerned with it in the early years of the twentieth century, and it has been an important topic of study for many school finance scholars since that time. There is considerable disagreement among researchers on whether a direct relationship exists between dollars spent and student performance. Such divergence of opinion has caused some to believe that public education has already reached the marginal dollar limit and a point of diminishing returns. The lack of unanimity among scholars does not diminish that whatever improvements can be made to make education more effective, more extensive, and more applicable to the lives of U.S. citizens should be made.

Some policymakers and other public school critics maintain that financial resources do not matter; others maintain it does. Paul Mort stated that "the relationship between expenditure level and quality of education is strong," whereas Coleman and Jencks stated that "costs have only a minor effect." While Hanushek argued that "there was no strong relationship between school expenditures and student performance, concluding that throwing money at the schools wouldn't improve student outcomes," to which Baker retorted, "The data shows that simply throwing money at the schools is an effective strategy for improving education."[12]

To say that resource inputs can and do make a difference in student's educational outcomes is still a matter of interpretation. It is normal for people, especially overburdened taxpayers, to compare the costs and apparent productivity of various public institutions or industries—particularly those in direct competition with each other for scarce tax dollars. Such comparisons may reflect unfavorably on education for reasons not under the control of those involved.

The problem of producing spectacular improvements in education with the allocation of additional funds is another matter. Greatly increased expenditures for education have not, cannot, and will not produce such large or fantastic increases or improvements in its products. The nature of the learning process being what it is, increases in learning effectiveness can be anticipated only in small percentages, regardless of the magnitude of the financial increments applied to the improvement process. It is unlikely that the field of education, even with the application of almost limitless resources, will ever have available ways of multiplying the quantity or the quality of learning that human beings can achieve in a predetermined amount of time.

Education as Human Capital

The importance of education to the growth of the national economy is no longer challenged. Historically, education has been the largest public function—and the country's biggest business, when viewed in terms of the numbers of people and dollars of income involved in its operation. The expansion of educational services and the greatly increasing costs of education year after year have had a beneficial effect on the nation's economy. It is not likely that this condition will change.

Most economists now recognize the importance of investment in education for developing the nation's large reservoir of human capital. The economists of an earlier era emphasized the roles of land, labor, and capital in achieving economic growth, and they gave only passing attention to the economic importance of education.

Now, most economists have emphasized the value of education as a factor in stimulating economic growth. Education is now popularly referred to as investment in human capital. Such leaders in the field as John Kenneth Galbraith, Harold Groves, Milton Friedman, Theodore Schultz, and Charles Benson have documented the relation between education and economic growth. They have deplored the waste of the labor force and human resources that automatically accompanies inadequate education, regardless of its causes. Schultz has given an excellent definition of *human capital:*

> Human capital has the fundamental attributes of the basic economic concept of *capital*; namely, it is a source of future satisfactions, or of future earnings, or both of them. What makes it *human* capital is the fact that it becomes an integral part of a person. But we were taught that land, capital, and labor are the basic factors of production. Thus we

find it hard to think of the useful skills and knowledge that each of us has acquired as forms of capital.[13]

Since human capital has the fundamental characteristics of any form of economic capital and it is a part of the person possessing it, such capital deteriorates with inactivity. It does not disappear completely until the death or complete incapacity of the person possessing it. It often needs to be reactivated and updated to lessen its degree of obsoleteness or the extent of its inadequateness.

Economic Benefits of Education

Right or wrong, the main thrust of expenditures for public education is toward transmitting known information to individual consumers. Since the generally accepted philosophy of education requires that all citizens have a high-quality education through most of their preadult life, the costs of a formal education program must, of necessity, be proportionately higher for the United States than for countries that are disposed to release their youths at an earlier age. But what of the benefits of education to individuals under a system that requires participation for such an extended period?

Many studies have been conducted and estimates made to determine the economic benefits that accrue to the average person with varying amounts of formal education. Universally, these reports indicate the high pecuniary benefits of education (see Table 1.3).

The educated person enjoys a broader range of job opportunities than his or her less well-educated counterpart. Since unemployment is usually closely related to lack of education and adequate work skills, education provides some security against joblessness in periods of change or a slackening of business and industrial activity. However, no figures can be quoted to indicate the economic benefits of education to individuals in such matters as increases in vocational alternatives, increases in vocational and avocational interests, and greater appreciation for cultural and intellectual pursuits.

Many people view education strictly in terms of costs, legislative allocations, and percentage of taxes. If education is considered as an investment in human capital, the problem becomes one of extracting sufficient resources from the present economy to provide educational opportunities to the populace now that will be adequate to pay dividends to society in the future. If one considers only the taxes paid by individuals who make more money, the benefit to the state is significant.

In addition to this benefit in taxes, there is significant pecuniary advantage to the individual. At the close of the twentieth century, economic benefits, in terms of average earnings per person in the United States, in relation to education level achieved, included the following:

- A male junior high school dropout earned $12,097 less per year than a high-school graduate. In lifetime earnings, that amounts to $423,395 (see Table 1.3).
- A male high school dropout earned $7,519 less per year than a high school graduate. In lifetime earnings, that equates to $263,165.

TABLE 1.3 Median Annual Income of Year-Round Full-Time Workers, Age 25 Years and Over, by Level of Education Completed and Sex: 1991 to 1998

		Elementary/Secondary			College						
							Bachelor's Degree or Higher				
Sex and Year	Total	Less than 9th Grade	9th to 12th Grade, No Diploma	High School Graduate	Some College, No Degree	Associate Degree	Total	Bachelor's	Master's	Professional	Doctorate
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
					Current Dollars						
Men											
1991	31,613	17,623	21,402	26,779	31,663	33,817	45,138	40,906	49,734	73,996	57,187
1992	32,057	17,294	21,274	27,280	32,103	33,433	45,802	41,355	49,973	76,220	57,418
1993	32,359	16,863	21,752	27,370	32,077	33,690	47,740	42,757	51,867	80,549	63,149
1994	33,440	17,532	22,048	28,037	32,279	35,794	49,228	43,663	53,500	75,009	61,921
1995	34,551	18,354	22,185	29,510	33,883	35,201	50,481	45,266	55,216	79,667	65,336
1996	35,622	17,962	22,717	30,709	34,845	37,131	51,436	45,846	60,508	85,963	71,227
1997	36,678	19,291	24,726	31,215	35,945	38,022	53,450	48,616	61,690	85,011	76,234
1998	37,906	19,380	23,958	31,477	36,934	40,274	56,524	51,405	62,244	94,737	75,078
Women											
1991	22,043	12,066	14,455	18,836	22,143	25,000	31,310	29,079	34,949	46,742	43,303
1992	23,139	12,958	14,559	19,427	23,157	25,624	32,304	30,326	36,037	46,257	45,790
1993	23,629	12,415	15,386	19,963	23,056	25,883	34,307	31,197	38,612	50,211	47,248
1994	24,399	12,430	15,133	20,373	23,514	25,940	35,378	31,741	39,457	50,615	51,119
1995	24,875	13,577	15,825	20,463	23,997	27,311	35,259	32,051	40,263	50,000	48,141
1996	25,808	14,414	16,953	21,175	25,167	28,083	36,461	33,525	41,901	57,624	56,267
1997	26,974	14,161	16,697	22,067	26,335	28,812	38,038	35,379	44,949	61,051	53,037
1998	27,956	14,467	16,482	22,780	27,420	29,924	39,786	36,559	45,283	57,565	57,796

Source: Digest of Education Statistics, 1999, Chapter 5, Outcomes of Education, Table 386. http://nces.ed.gov/pubs2000/digest99/d99t386.html.

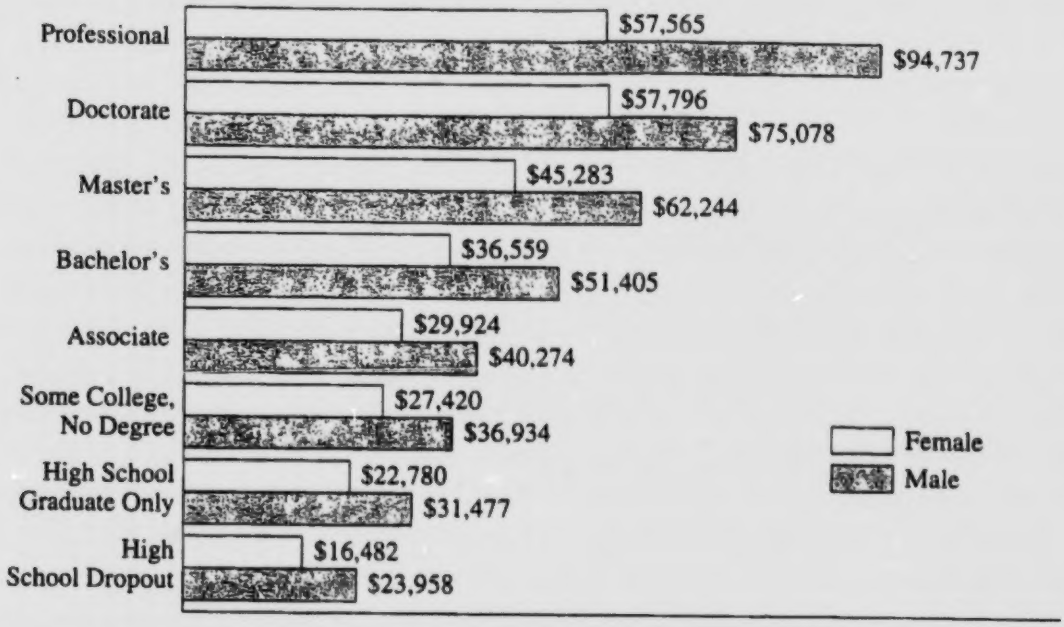

FIGURE 1.1 Mean Average Earnings per Person in the United States, Age 25 and Over, in Full-Time Employment, by Gender: 2000

Source: U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-60, "Money Income of Households, Families, and Persons in the United States," "Income, Poverty, and Valuation of Noncash Benefits," various years, "Money Income in the United States: 1995," P60–193, "Money Income in the United States: 1997," P60–200, and "Money Income in the United States: 1998," P60–206. (This figure was prepared June 2000).

- A male high school graduate earned $19,928 less annually than a college graduate did. In lifetime earnings, the equals $697,480.
- Increasing education for males at the master's, doctorate, and professional levels showed similar gains (see Figure 1.1).
- A female junior high school dropout earned $8,313 less per year than a high school graduate. That amounts to $290,955 in lifetime earnings.
- A female high school dropout earned $6,298 less per year than a high school graduate. That equates to $220,430 in lifetime earnings.
- A female high school graduate earned $13,779 less annually than a college graduate did. That equals $482,265 in lifetime earnings.
- Increasing education for females at the master's, doctorate, and professional levels showed similar gains. (see Figure 1.1).
- There were 52,381,000 male workers and 35,628,000 female workers with income (see Table 1.4).
- Workers are limited because of lack of education—the more education they receive, the more money they make (see Figure 1.1).
- The relationship of education and earnings is positive for males and females. However, males have a higher median annual income. Also, males at the professional

TABLE 1.4 Number of Workers with Income (in thousands) by Gender: 1991 to 1998

		Elementary/Secondary			College						
							Bachelor's Degree or Higher				
Sex and Year	Total	Less than 9th Grade	9th to 12th Grade, No Diploma	High School Graduate	Some College, No Degree	Associate Degree	Total	Bachelor's	Master's	Professional	Doctorate
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
Men											
1991	44,199	1,807	3,083	15,025	8,034	2,899	13,350	8,456	3,073	1,147	674
1992	44,752	1,815	3,009	14,722	8,067	3,203	13,937	8,719	3,178	1,295	745
1993	45,873	1,790	3,083	14,604	8,493	3,557	14,346	9,178	3,131	1,231	808
1994	47,566	1,895	3,057	15,109	8,783	3,735	14,987	9,636	3,225	1,258	868
1995	48,500	1,946	3,335	15,331	8,908	3,926	15,054	9,597	3,395	1,208	853
1996	49,764	2,041	3,441	15,840	9,173	3,931	15,339	9,898	3,272	1,277	893
1997	50,807	1,914	3,548	16,225	9,170	4,086	15,864	10,349	3,228	1,321	966
1998	52,381	1,870	3,613	16,442	9,375	4,347	16,733	11,058	3,414	1,264	998
Women											
1991	29,474	733	1,819	10,959	5,633	2,523	7,807	5,263	2,025	312	206
1992	30,346	734	1,659	11,039	5,904	2,655	8,355	5,604	2,192	334	225
1993	30,683	765	1,576	10,513	6,279	3,067	8,483	5,735	2,166	323	260
1994	31,379	696	1,675	10,785	6,256	3,210	8,756	5,901	2,174	398	283
1995	32,673	774	1,763	11,064	6,329	3,336	9,406	6,434	2,268	421	283
1996	33,549	750	1,751	11,363	6,582	3,468	9,636	6,689	2,213	413	322
1997	34,624	791	1,765	11,475	6,628	3,538	10,427	7,173	2,448	488	318
1998	35,628	814	1,878	11,613	7,070	3,527	10,725	7,288	2,639	468	329

Source: Digest of Education Statistics, 1999, Chapter 5, Outcomes of Education, Table 386. http://nces.ed.gov/pubs2000/digest99/d99t386.html.

level make more than those with a doctorate. Females usually follow that pattern but the latest information show that statistic reversed.

Creation of Wealth and Education

The creation of wealth is essential to the continuing growth of a nation and from which the resources for education are available. Five important elements in the creation of wealth are labor, capital, technology, resources, and management. All five are enhanced through education, increasing individual wealth, and improving the quality of life for society.

Concerning labor, educated workers are more skilled, take more pride in their work, and are able to do a better job, faster and more creatively than less educated workers. Education motivates workers to more production and better fulfillment of organizational and personal needs.

Capital begets capital. Those who have a college education generally earn nearly twice as much as high school dropouts and consequently have more to invest. Investment in organizations—public or private—generally benefits society through the production of goods and services for all. The more education, the more wealth is developed for investment purposes, which creates more capital, in an endless cycle.

The wonders of modern technology have been made possible largely because of education. The position the United States holds in technical improvements is the result of an educational system that encourages research, creativity, and practical application. Much of today's wealth is tied to technology, and technology is advanced through education.

Every area of resources—human, physical, and financial—is improved and refined through education. Even the environment is better appreciated and preserved through education. Methods of mining, lumbering, and other forms of natural resource production and use have been improved through the development of skills and training, and more wealth is produced through better use of resources.

Management enhances wealth. As managers and leaders learn about personnel skills, they are better able to make decisions leading to more production, less dissatisfaction among workers, and more efficient accomplishment of the organization's goals. Effective management of the other four elements of wealth—labor, capital, technology, and resources—promotes wealth.

Increasing Expenditures and the Economy

It has been established that there is a close and positive relationship between investment in education and the productivity of a nation. Educational development is more important than the extent of natural resources in determining the productivity and individual income level of nations. Fortunate indeed is a nation that has extensive natural resources and also highly developed human resources. A nation with high educational development may overcome to a great degree any lack of natural resources, but no nation having a poor educational system, even with tremendous stores of natural wealth, has been able to approach high individual economic productivity. A deficiency in both these areas automatically relegates a nation to low productivity and inferior economic status.

Expenditures Benefit Individuals and Society

There is proof that education helps the individual, and those who point to the costs of education often consider only individual benefits. It is true that an individual gains social mobility, a better-paying and higher-status job, more appreciation for arts and culture, and the ability to participate more fully in the democratic process. In addition, benefits accrue to the individual's family, neighborhood, business, society, and culture. Children of college graduates are more likely to attend college and be successful in college, creating a family education cycle. The whole of society benefits from scientific inventions. Business organizations benefit from higher skilled and motivated workers. Generally, the more education a person attains, the better job he or she will have. As income rises, so do taxes, which benefit society's programs. Then more services can be provided without increasing the tax burden on individuals.

Expenditures, particularly those for educational salaries (75 to 80 percent of the total for current expenditures), quickly find their way back into the private economy through normal flow in the economic system. Thus, their withdrawal from the private sector in the form of taxes paid, their passage into and through the public sector via the payroll, and their return to the sector of their beginning usually form a cycle that is operative in such a short period of time that the original withdrawal effect on the economy is minimal.

Noneconomic Benefits of Education

The positive economic effects of good education are extremely important. Much is said and written about education as an investment in people. Sometimes, however, in an effort to show its economic investment characteristics, people may inadvertently overlook the social benefits or the noneconomic benefits of education.

A republic must stake its chances for a free democratic society on a viable education system. An uninformed and illiterate people are not able to govern themselves. Students must understand the philosophical foundation and the federalism nature of the United States Constitution, the framework of government, their role in continuing the nation's political system, and the dangers of anarchy. The foundation of representative government is a population of well-informed and responsible citizens with knowledge to cast a rational vote for candidates for public office. Those for whom they vote must make decisions about the education system, national defense, communication, computer issues, and international affairs, which makes it clear that an educated citizenry is an essential national requirement.

Perpetuating our form of government is just one of the many noneconomic benefits of education. Another is that schools are a source of moral values. The principles of honesty, integrity, morality, compassion, and observing rules and laws are still taught, directly or indirectly, in the schools. Although religious instruction is for the churches, ethical values such as tolerance, rejecting prejudice, and equality are studied in school classrooms. Informed and perceptive minds are nurtured in the school setting.

Individuals also learn to appreciate and patronize the arts, benefiting all. Education preserves a nation's culture and a people's sense of identity. Only through education can the history and traditions of a people be preserved and the standard of living (as measured by quantity of money and quality of life) be enhanced.

Education Produces External Benefits

Education, just as other public services, produces and extends benefits beyond the internal values obtained by its recipients. It is therefore said to possess *externalities*—values and benefits for people outside or beyond those who are its direct consumers. This fact is used to justify financing it by a process of taxation rather than by fee collecting, rate bills, or tuition charges. Education's externalities are such that society does not permit individuals to purchase it, or even determine the minimum amount of it to be purchased, on the basis of desire or felt need alone, for some would purchase little or none of it if allowed to exercise their individual options. As a result, society has deemed it advisable to require the consumption of a minimum amount of education by all its citizens. Such service is supported financially by some form of tax, the amount based on some measure of ability to pay. This system presumes no direct relation between the amount of taxes paid and the amount of direct or internal value received by the taxpayer. To a great degree, it denies the individual the right of choice of the kind or amount of educational services he or she is required to assume.

It is evident that individuals are not only concerned with the amount of education they consume but they are also concerned with the extent of education others consume. Standards of living are raised and economic growth is enhanced by the externalities that are generated by the education of the members of a social group. Individuals tend to gain more personally with the education of many in a society than they will gain if only a few purchase education's services.

Exclusion Principle

The private sector is much better qualified than the public sector to produce and distribute goods and services that can be purchased at the option of individuals and households. Such purchases of goods and services ordinarily create no automatic or residual benefits to society but bring such benefits only to the purchaser. This is commonly referred to as the *exclusion principle*. As an example, the private sector can provide gasoline and other service station products to any and all individuals and organizations that need and can pay for such goods and services. The purchaser receives personal benefits directly related to the quantity of such products he or she buys.

Education does not follow the exclusion principle. Everyone benefits from education when the results are lower social costs, increased wealth, greater income and sales tax revenue, and development of the five elements that expand the economy: resources, labor, capital, technology, and management. It is thereby impossible to assess costs in terms of potential benefits to purchasers and at the same time exclude nonpurchasers from similar benefits.

Externalities Justify the Ability Principle

The problem of financing education is different from that of marketing most other goods and services. The existence of externalities and the nonexistence of the exclusion principle changed the method of financing education from the *benefit principle* to the *ability principle*. The lessons learned in the prepublic school era in this matter should not be forgotten. Unfortunately, some individuals in every society would not be partakers of education if it were purchasable only on a voluntary basis. They must be required by government to obtain it in some minimum quantity by compulsory school attendance laws. A second important factor is that not only does education benefit individuals in proportion to their purchase or consumption of it but it also pervades society and indirectly affects all citizens. These effects lead to higher standards of living and allow greater consumption of cultural goods and services.

It is impossible to measure the benefits that come to the individual or to society from individual purchases of educational services. That being true, the most defensible approach is to assume that all individuals in society benefit to about the same degree or extent. On that basis, the costs of education should be paid by all members of society in terms of their ability to pay. Under this ability principle, the wealthy pay more for the services of government, but their comparative burden is no greater than that borne by the less affluent.

Taxation and Education

To tax individuals in direct relation to the benefits they receive from the service or commodity that is provided by that tax would seem to be defensible, provided that the benefit is observable and to a high degree measurable, and provided further that they alone benefit from the tax they pay. Proponents of the benefit system of taxation argue that taxation by the ability principle penalizes the affluent and financially successful person. Such a process, they contend, stifles and curtails further activities of an economic nature and tends to create an indolent society. They point to the extremely high rate of the upper level of income tax of a few years ago and its negative effect on business and industrial expansion.

Education and certain other services of government do not lend themselves to the benefit principle of taxation. Every state has had or now has a compulsory school attendance law that requires all children of certain ages to spend a predetermined amount of time in formal education. What about those required to attend who do not have the financial ability to pay for such required services of government? Are the parents of six children to pay six times as much as the parents of one child? Is the adult without children to be exempt from school taxation altogether? Such questions have faced the states through the years; even today, the relative importance of this form of taxation varies considerably among the states.

Cost-Quality Relationship in Education

Economic, political, and educational leaders are concerned with the question of how the amount of money spent for education relates to the quality of the educational product. Various reform movements have sought more productivity from instructional staff, lower administration costs, better utilization of buildings, and other cost-saving remedies, with the anticipation that the quality of services would not be affected. It is difficult to obtain data and other available evidence in relation to such cost-quality relationships.

The difficulty of solving the cost-quality problem in education is increased by the fact that the term *high quality* has not been defined in terms that are measurable and acceptable to all concerned. Is high-quality education something that can be measured by scores on achievement and other tests? What relation does it have to vocational training or to the kinds of attitudes and habits developed by students? Is a student's score of 95 on an examination compared with a score of 80 by another student a measure of a difference in quality or in quantity of education? Does extending the school year provide for potentially greater quality of education, or is quantity the variable? These and many other similar questions make the resolution of this important problem difficult, if not impossible.

The goals of education have been under almost continuous critical evaluation, resulting in frequent restatements. The quality of education should be a measurement of the extent to which the recipients of the educational offering of the schools have attained the established goals. But therein lies the difficulty—the "goals" of education vary from place to place and from time to time; even if they are agreed on, there is no way to measure all of the changes in human behavior that are the products of formal education. Although advances in scholarship and academic achievement can be measured objectively, there have always been other goals of varying importance, for which there are only the crudest methods of determining their degree of inculcation in the lives of the school's clientele.

The cost-quality relation, in reality a matter of the efficiency with which the schools reach their objectives with the smallest outlay of money, is not unique to education. All institutions that are financed with public funds are, to some degree at least, concerned with maintaining maximum efficiency—if such can be attained. This must always be true with the institutions and agencies of government that are responsible for wise and defensible expenditures of the limited tax dollar. A lack of concern for efficiency tends to destroy public confidence in social and governmental institutions.

Research Limitations

Educational research does not have a particularly successful history in the United States. Public education has been notoriously indifferent to its existence. Funds for this potentially important aspect of education have been lacking; public school personnel, for the most part, have been ill-equipped by training and experience to initiate and conduct research on a satisfactory level. Traditionally, the research function has been reserved for higher education, and little has been done to alter the pattern. Future expenditures for education should include more adequate allotments for educational research. Colleges, universities, private institutions, and state departments of education have initiated research; some progress is under way, and public school teachers, especially those who have revolted against past routines, are becoming more research oriented.

Research studies of cost-quality relations in education have been numerous, but their results have not been conclusive. They have been centered on the measurement of *input* (time, money, and human capital that have been used to create a product or provide a service) and *output* (quality of the product that has been produced). Input measurement offers no particular problems, but measurement of the output of educational institutions is at best a highly subjective procedure.

Cost-quality research studies had their real emphasis under Paul Mort, who summarized his studies with the statement: "Every empirical study of the relationship between expenditure level and quality of education adds its bit to the presumption that the relationship is strong."[14] This relationship, he reported, appeared to hold through all levels of expenditures experienced up to the date of his studies.

Mort and Reusser summarized the results of numerous studies of cost-quality relations in education as follows:

> Expenditure level is one of the highly important factors in achieving good education. Communities spending more for education get more in the way of results generally desired by people.
>
> The early studies showed that those communities which spend more get more in the way of services: longer terms, better trained teachers, more special services, etc.
>
> Later studies show that communities which spend more tend to be more adaptable, tend to utilize improved methods more quickly. In addition, higher expenditure schools get a different behavior pattern in the schools; the skills and knowledges are taught more in line with the best understanding of how human beings learn; more attention is given to the discovery and development of special aptitudes; more attention is given to the positive unfolding in individual boys and girls of stronger patterns of behavior—citizenship, personality, character.[15]

The relation of cost and quality in education has been questioned more critically as a result of studies by Coleman[16] and Jencks.[17] The results of these studies seem to indicate that costs (as evidenced in such things as salaries and facilities) have only a minor effect on achievement of students when compared with the much larger effect of their intelligence and family background. The net effect of these studies has been to raise doubts and controversy concerning input-output relations in education. Perhaps the debate was best summarized by Coons, Clune, and Sugarman in the following:

> There are similar studies suggesting stronger positive consequences from dollar increments, and there are others suggesting only trivial consequences, but the basic lesson to be drawn from the experts at this point is the current inadequacy of social science to delineate with any clarity the relation between cost and quality. We are unwilling to postpone reform while we await the hoped-for refinements in methodology which will

> settle the issue. We regard the fierce resistance by rich districts to reform as adequate testimonial to the relevance of money. Whatever it is that money may be thought to contribute to the education of children, that commodity is something highly prized by those who enjoy the greatest measure of it. If money is inadequate to improve education, the residents of poor districts should at least have an equal opportunity to be disappointed by its failure.[18]

Economists refer to education as a labor-intensive activity. Since approximately three-fourths of the costs of education are required to pay the salaries of personnel, and since these salaries are not related to the degree of success achieved by the individuals receiving them, additional funds for education may be merely increases in salaries. This is particularly true in areas where teacher organizations have become powerful and effective in their bargaining with local boards of education.

Some of the operations of the schools seem to recognize that there is a positive relationship between cost and quality in education. Coons, Clune, and Sugarman stated a practical and reasonable rationale concerning that point of view:

> The statutes creating district authority to tax and spend are the legal embodiment of the principle that money is quality in education. The power to raise dollars by taxation is the very source of education as far as the state is concerned. By regulating the rates of taxation, typically from a minimum to a maximum, the state is in effect stating that dollars count (at least within this range) and that the district has some freedom to choose better or worse education. If dollars are not assumed to buy education, whence the justification for the tax?[19]

It is apparent that the statistical evidence between spending and student outcome is difficult to measure because of the variables that determine student achievement. Money is only one element, for one must consider the characteristics of a family, the effectiveness of the school, the expertise of the teacher, the native intelligence of the child, and the multiple talents of diverse human beings. Although Hanushek stated that there is no strong or systematic relationship between school expenditures and student performance,[20] Hedges, Laine, and Greenwald maintained that relying on the data most often used, "We find that money does matter after all."[21]

Verstegen and King wrote that "a large and growing body of research—that has taken advantage of improvements in technology, better databases and advances in methodologies and measurements—provides further evidence that school inputs can and do make a difference in education and are positively associated with both enhanced student achievement and labor market earnings."[22] They continue, "There are clear relationships between funding and achievement."[23] Their basis for these conclusions was the work of several investigators who used different research technology, databases, and methodology. The researchers found:

- Teacher characteristics relate positively to student performance (MacPhail-Wilcox and King).
- There are significant relationships between school resources and student outcomes (Ferguson).

- Significant relationships exist between schooling inputs and students success (Cooper and associates).
- Teacher's education links to positive student outcomes (Monk).
- Lower pupil-teacher ratios relate to higher student outcomes (Finn and Achilles).
- School revenue was found to account for one-third of the variations in proficiency test scores (Verstegen).
- The proportion of teachers with master's degrees and class size (as measured by ACT scores) affect student learning—and since these variables cost money, that means, that money matters (Ferguson and Ladd).
- The more money schools spend, the higher the achievement of students (Baker).
- There are significant relationships between spending on education and labor market outcomes (Card and Krueger; they used earnings as the outcome measures rather than test scores).[24]

Even though profound improvements have been made in recent research techniques, studies that investigate cost-quality relationships are still two-edged. Picus concluded, "There is still a great deal of debate as to whether or not money makes a difference in education.... Everyone agrees that high spending provides better opportunities for learning and seemingly higher student achievement, [but] statistical conformation...has been hard to develop."[25] Other variables exist as well. A 15-year analysis of studies done by the National Institute of Education noted that the place called school makes a difference if it has instructional leadership from the principal, a safe and secure environment, high expectations of students, a good monitoring system, and commitment to basic skills instruction. Family, money, leaderships, teacher attributes, pedagogy, research methodology—all are important when attempting to unravel the variables in scientific research as it relates to cost-quality studies.

Summary

Economists have come to regard education as an investment in human capital. Resource allocations to education are a responsibility of government at all levels. The scope of services provided is determined by the value of those services as compared to the value of other services at the same cost, but the point of diminishing returns for investments in education has yet to be reached.

Funding the rapidly increasing costs of education will be a serious challenge to Americans in the twenty-first century. There is a problem proving definitively that commensurate gains in output can be shown for increases in dollar output.

Economists and politicians, from a broad ideological spectrum, value education. Not only does the individual benefit from an investment in an organization but society as a whole benefits when goods and services are produced for all. When seeking financial support for schools, educators need insight to relate to various philosophies.

Education is recognized as an important stimulator of economic growth. Its sponsorship and financing is a public-sector responsibility. Its services should be provided equitably, but it cannot be provided with equality to all.

Although expenditures for education continue to increase annually, the burden is eased by the fact that most school costs involve money, particularly in salaries, that is returned quickly to the private sector. The money is not removed from the marketplace.

Education provides many benefits to individuals and households—economic as well as social and political. Since it provides external benefits beyond those provided to its consumers, it must be financed by the ability principle rather than by the benefit principle. The relationship between cost and quality in education is high, but there is a difference of opinion among researchers in defining and measuring quality in education.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *human capital, taxation, equity, adequacy, benefit principle, cost-quality relationship, communist, capitalist, liberal, conservative.*
2. Trace the development of the economic theory that education is an investment in human capital.
3. Prepare a paper to be presented to a state legislature to aid it in determining the extent of state resources that should be allocated to public education in comparison with those allocated to other services of state government.
4. Prepare a feature article for a local newspaper in support of an upcoming school election for an increase in the local tax levy. Show that education is an investment in, not a drain on, the local economy.
5. Choose a prominent economist and study his or her economic theories. Relate those theories to education and the role of government in education.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER 2

Financing Education Adequately

> *Education is essential in a Constitutional government and it needs to be supported adequately. An adequate education includes developing an understanding of our government system, our economic system, basic skills in the 3Rs, completion of a high school education and an educational foundation to successfully matriculate in post-secondary or higher education and/or achieve occupational proficiency.*
>
> —Phil Harmeson, 2001

No adequate substitutes have been coined to replace the clichés "education in the United States is big business" and "education is a major user of the nation's economic resources." Although the meanings of the statements are obvious, they fail to communicate their real significance. Relatively few people realize the enormity of educational operations in this country. As "big business," the field of formal education employs more people than any other industry in the United States.

In the 1998–99 school year, an estimated $619 billion was spent on public and private education from preprimary through graduate school. The expenditures for elementary and secondary schools totaled $372 billion.[1] In public elementary and secondary schools there was an increase in spending of about $200 billion between 1980 and 1996–97 (see Table 2.1). The clientele served in the fall of 2001 was projected to be 47,785,000 in elementary and secondary education (see Table 2.2), and public school enrollment is projected to set new records every year until 2009 (see Figure 2.1), with public elementary enrollment expected to be fairly stable but secondary enrollment increasing by 9 percent.[2] There are an estimated 3.1 million teachers (about double the number in 1960) (see Figure 2.2) and approximately 3 million professional, administrators, and support staff in the 88,548 schools in the United States. These numbers add up to make public elementary and secondary education the primary activity of more than 55 million Americans. About one of every four Americans is involved in some aspect of education as student, teacher, administrator, counselor, aide, or support staff.

TABLE 2.1 Revenues for Public Elementary and Secondary Schools, by Source of Funds: 1970–71, 1980–81, and 1990–97

	In Thousands			
School Year	Total	Federal	State	Local (including intermediate)
1	2	*3*	4	5
1970–71	44,511,292	3,753,461	17,409,086	23,348,745
1980–81	105,949,087	9,768,262	50,182,659	45,998,166
1990–91	223,340,537	13,776,066	105,324,533	104,239,939
1991–92	234,581,384	15,493,330	108,783,449	110,304,605
1992–93	247,626,168	17,261,252	113,403,436	116,961,481
1993–94	260,159,468	18,341,483	117,474,209	124,343,776
1994–95	273,149,449	18,582,157	127,729,576	126,837,717
1995–96[1]	287,702,844	19,104,019	136,670,754	131,928,071
1996–97	305,051,963	20,081,235	146,433,951	138,536,778

Note: Beginning in 1980–81, revenues for state education agencies are excluded. Because of rounding, details may not add to totals.

[1] Revised from previously published figures.

Source: U.S. Department of Education, National Center for Education Statistics, Statistics of State School Systems; Revenues and Expenditures for Public Elementary and Secondary Education; and Common Core of Data surveys. (This table was prepared July 2000.) http://nces.ed.gov/pubs2000/digest99/d99t160.html.

TABLE 2.2 Enrollment in Public Schools: 1869 to 2009 (in thousands)

Year	Total	Year	Total	Year	Total
1869–70	6,872	Fall 1989	40,543	Fall 2001[2]	47,785
1879–80	9,868	Fall 1990	41,217	Fall 2002[2]	48,010
1889–90	12,723	Fall 1991	42,047	Fall 2003[2]	48,154
1899–1900	15,503	Fall 1992	42,823	Fall 2004[2]	48,286
1909–10	17,814	Fall 1993	43,465	Fall 2005[2]	48,392
1919–20	21,578	Fall 1994	44,111	Fall 2006[2]	48,418
1929–30	25,678	Fall 1995	44,840	Fall 2007[2]	48,362
1939–40	25,434	Fall 1996	45,611	Fall 2008[2]	48,255
1949–50	25,111	Fall 1997[1]	46,127	Fall 2009[2]	48,126
Fall 1959	35,182	Fall 1998[2]	46,844		
Fall 1969	45,550	Fall 1999[2]	47,244		
		Fall 2000[2]	47,533		
Fall 1979	41,651				

[1] Different from previous published data.

[2] Projected.

Source: Digest of Education Statistics, 1999, Chapter 1, All Levels of Education, Table 3. http://nces.ed.gov/pubs2000/digest99/d99t003.html.

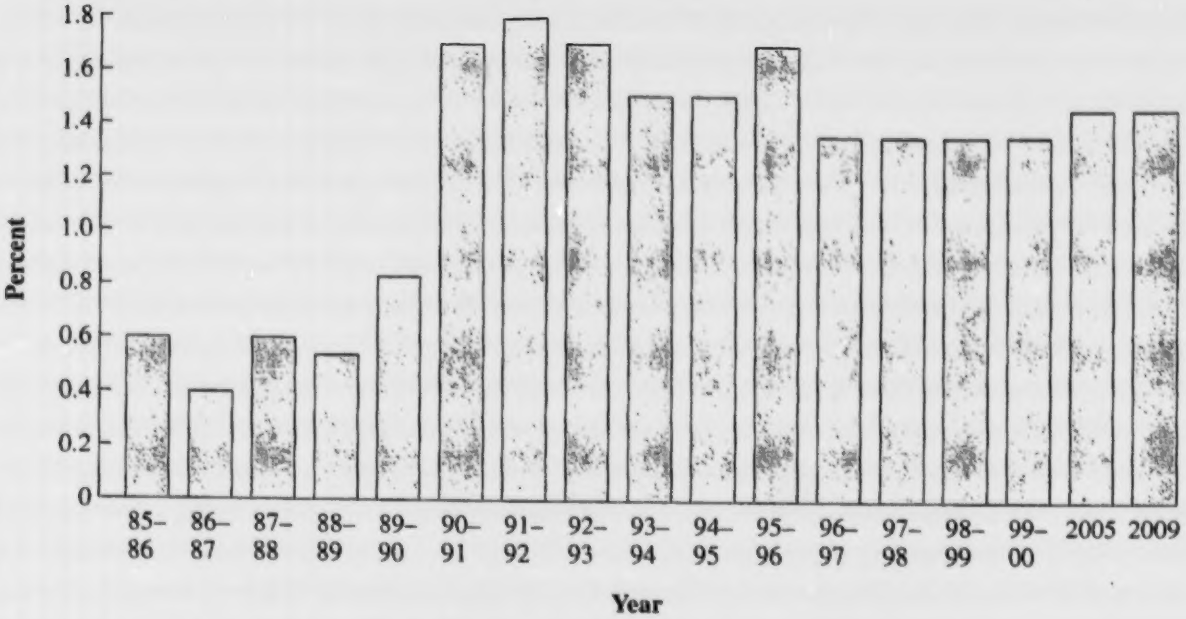


FIGURE 2.1 Percent Change: Fall Enrollment 1985–86 to 1999–00 (projected for years 2005 and 2009)

Source: U.S. Department of Education, National Center for Education Statistics, Statistics of State School Systems; Statistics of Public Elementary and Secondary School Systems; Statistics of Nonpublic Elementary and Secondary Schools; Projections of Education Statistics to 2009; Common Core of Data; Higher Education General Information Survey (HEGIS), "Fall Enrollment in Institutions of Higher Education" surveys; and Integrated Postsecondary Education Data System (IPEDS), "Fall Enrollment" surveys. http://nces.ed.gov/pubs2000/digest99/d99t003.html.

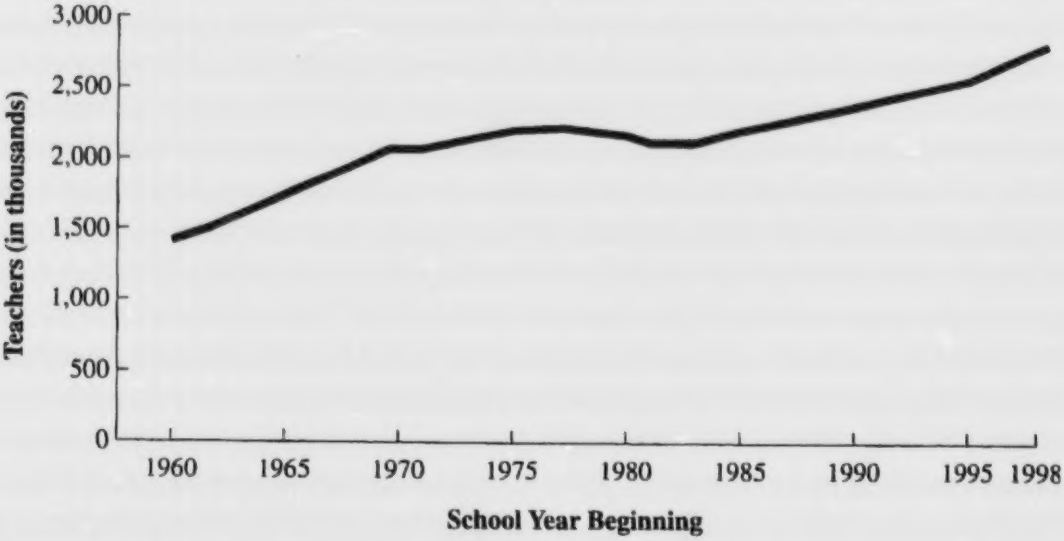


FIGURE 2.2 Teachers in Thousands, 1960–1998

Source: U.S. Department of Education, National Center for Education Statistics, *Statistics of State School Systems; Statistics of Public Elementary and Secondary School Systems; Revenues and Expenditures for Public Elementary and Secondary Education;* and Common Core of Data surveys. http://nces.ed.gov/pubs2000/digest99/chapter2.html.

47

Constantly increasing school expenditures, inequities in the amounts of revenue available per person to be educated, and heavy property tax burdens on individual citizens have provided motivation for school finance reform in nearly every state. Increases in spending are related to several factors: (1) increasing and changing enrollments of students, (2) increases in programs and services provided, (3) changing rates of inflation, and (4) inequities in the quantity and quality of services provided in the country's thousands of school districts.

Schools of the early twenty-first century will find little relief from those problems experienced during previous decades. The states' share of funding has grown and local tax dollars must compete with many other agencies of government. States are struggling with the equity issue, revising their finance systems for a better distribution between poor and wealthy districts.

School enrollment is expected to increase by 4 percent from 2000 to 2009. In addition, student enrollment is shifting, as reflected in the pattern of change shown in Figure 2.3. This phenomenon mirrors to a considerable degree the population modification in the country. Regionally, enrollment will increase most rapidly in the West, where

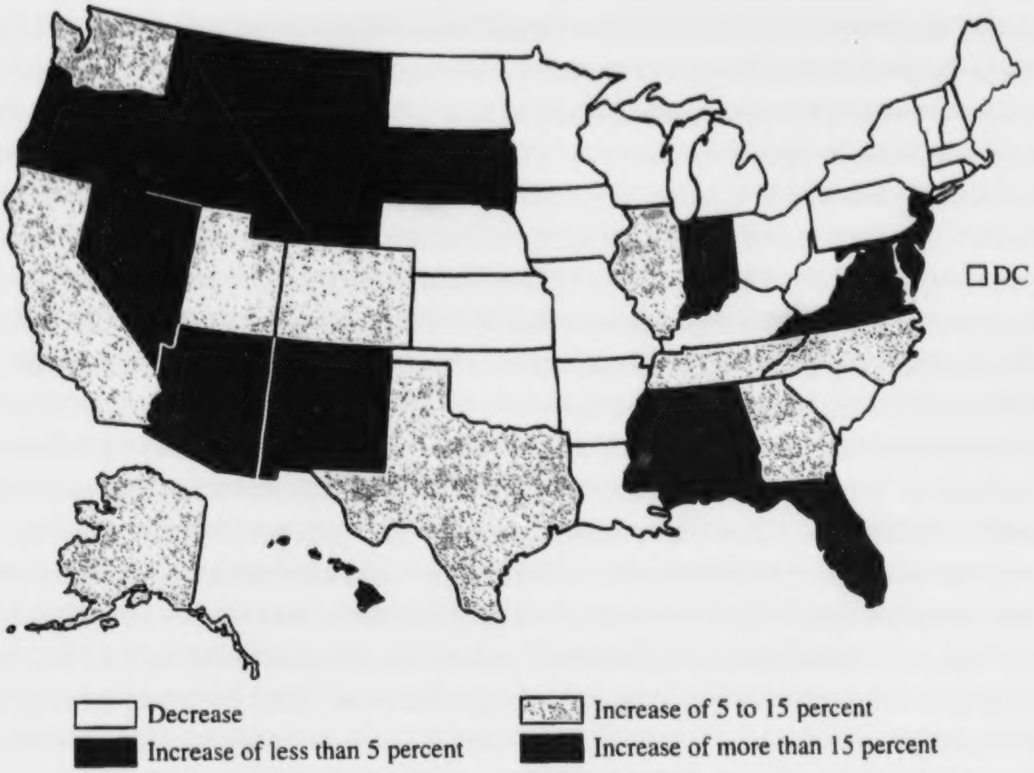

☐DC
☐ Decrease
▨ Increase of 5 to 15 percent
■ Increase of less than 5 percent
■ Increase of more than 15 percent

FIGURE 2.3 Percentage Change in Grades K–12 Enrollment in Public Schools, by State: Fall 1997 to Fall 2009

Source: U.S. Department of Education; National Center for Education Statistics, Projections of Educational Statistics to 2006. http://nces.ed.gov/pubs2000/qtrlywinter/6cross/6-esq14-a.html.

total enrollment is expected to rise 11 percent, and least rapidly in the South, where projections are for an increase of 5 percent. Enrollment is expected to decrease by 2 percent in the Northeast and by 1 percent in the Midwest. At the state level, the largest percentage increases are expected in Nevada (28 percent), Arizona (21 percent), and Idaho (20 percent). The largest decreases are expected in the District of Columbia (10 percent), Maine (9 percent), North Dakota (8 percent), and West Virginia (7 percent).[3]

Percentages do not always describe the growth factor, however. To understand the true significance of school growth, total numbers are important to consider. The figures are staggering and have a definite impact on school finance, not only in hiring teachers and providing other current expenditures but in constructing buildings to accommodate the students. For example, California will have nearly one million new pupils in the 10-year period from 1998 to 2008. With 25 to a classroom, that will require hiring 40,000 new teachers and building 2,000 schools.

Inflation rates, which reached double digits in the 1970s and early 1980s, were reduced to a moderate rate in the late 1980s and 1990s, giving relief to school budgets. In 1998, the inflation rate was minimal, at 1.7 percent; by 2000, however, the rate had risen to 4.2 percent. The cost to educate a student has risen from about $3,750 in 1970–71 to nearly doubling to $7,000 in 1998–99 constant dollars a year for those in average daily attendance (see Figure 2.4).

Public resistance to taxes persists. More and better educational service continue to be demanded. Even in some of the states where drastic curtailments of public school

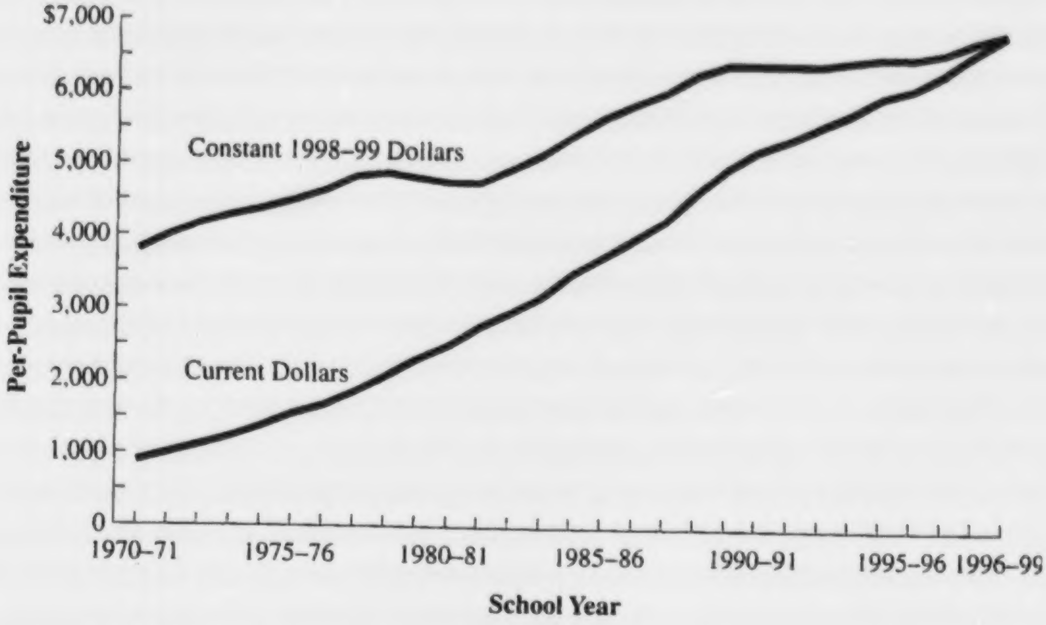


FIGURE 2.4 Current Expenditure per Pupil in Average Daily Attendance in Public Elementary and Secondary Schools: 1970–71 to 1998–99

Source: U.S. Department of Education, National Center for Education Statistics, *Statistics of State School Systems: Revenues and Expenditures for Public Elementary and Secondary Education;* and Common Core of Data surveys. http://nces.ed.gov/pubs2000/digest99/chapter2.html.

revenues were affected in recent years due to court decisions, legislative actions, or referenda, the demands on the schools continue to mount. Thus, it appears as if the unsolved problems of financing education will continue to plague school boards and state legislatures in the twenty-first century.

Education Deserves Higher Priority

Unfortunately, many of the citizens of this country have not given education the high priority it deserves, requires, and must have if the schools are to accomplish their objectives. Too few people realize the contribution that formal education has made to the social, political, and economic achievement of the United States. The report "A Nation at Risk," published in April 1983, stated, "We recommend that citizens across the nation hold educators and elected officials responsible for providing the leadership necessary to achieve these reforms and that citizens provide the support and stability required to bring about the reforms we propose."[4]

According to a report issued in 2000 by the Center on Education Policy and the American Youth Policy, since the "A Nation at Risk" was released, "the nation has focused seriously on its schools." The authors stated that after this momentous report, "a more balanced picture of education...emerged." Admitting the shortcomings of public education, "such as unqualified teachers, school violence and poor student performance," the report maintained that in the "past two decades the system had made gains. Fewer students are dropping out. High school students are taking tougher

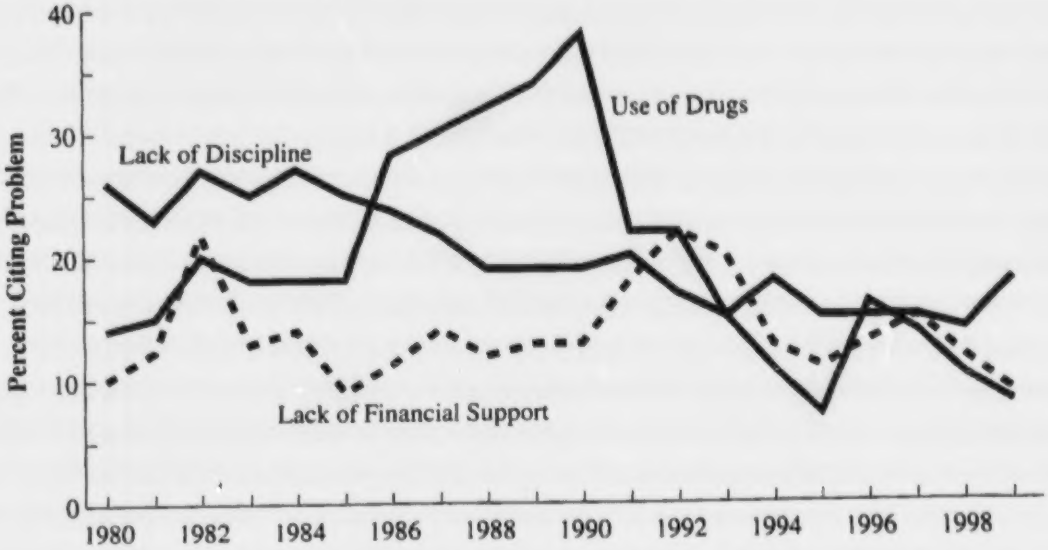


FIGURE 2.5 Items Most Frequently Cited by the Public as a Major Problem Facing the Local Public Schools: 1980 to 1999

Source: Digest of Education Statistics, 1999, Chapter 1, All Levels of Education. http://nces.ed.gov/pubs2000/digest99/chapter1.html.

courses. SAT scores are improving. Achievement in math and science is improving. More students are going to college." The report compared data from the early 1980s to the mid- to late 1990s, which showed that there have been many positive changes.[5]

School authorities continue to request the necessary funds to operate their educational programs. There is still a need for citizens of the United States to react positively in giving education the high priority that it requires. Groups who oppose taxes may injure the financing of public education. Although some taxpayer relief may be necessary and overdue, the field of education in particular stands to lose much—and the nation stands to lose more—if tax revolts have a harmful effect on the future of the public school system. Lack of financial support shared with the use of drugs and the lack of discipline as items most frequently cited as a major school problem (see Figure 2.5). The Committee for Economic Development indicated:

> We believe that education is an investment, not an expense. If we can ensure that all children are born healthy and develop the skills and knowledge they need to be productive, self-supporting adults, whatever is spent on their development and education will be returned many times over in higher productivity, incomes, and taxes and in lower costs for welfare, health care, crime, and a myriad of other economic and social problems.[6]

The Increasing Costs of Education

Education is most meaningful when it is fashioned in terms of goals or objectives, whether they are implied or formally stated in the literature. Education without purpose or philosophical commitment would have little value and would stimulate little if any support or dedication.

The purposes of education have much to do with the cost of the program that is established and operated to achieve those objectives. To compare the problems of financing a three Rs curriculum with those of financing a program constructed to achieve the far-reaching and comprehensive goals of present-day education is a futile exercise, guaranteed to result in frustration. As the schools reach out to supply new curricula and provide new methods of attaining increasingly complex and comprehensive goals for their clientele, the costs multiply, and taxpayers are forced to reach into their treasuries.

The revenues made available for financing public elementary, secondary, and postsecondary institutions from local, state, and federal sources have increased dramatically. Education problems do not belong to educators alone. Institutions and the family must share in preparing children for the future. When deciding how much should be spent for education, educators and legislators must agree on what the schools are expected to do. As the goals and objectives of education become more inclusive and more difficult to achieve, the taxpayers must face the stark fact that the costs will likewise increase.

Goals Have Increased

The persistent but irregular march of change and innovation in the public schools is shown by the many successive changes in the goals and objectives of education in the last half of the twentieth century. Such redefinitions have usually come after serious study, based on changing needs. Not all resultant statements have made an indelible imprint on education in the United States, but a few have.

Statements of the objectives of education were limited, easy to achieve, and correspondingly inexpensive. Goals of the school became more comprehensive and costly as the schools improved and as public confidence in them increased. The Seven Cardinal Principles of Secondary Education, the Four Objectives of the Educational Policies Commission, and the Ten Imperative Needs of Youth are early examples of some of the important statements of what people have at different times viewed as the important goals of education.

Just as the costs of education have increased almost geometrically, so have the demands placed on schools. Each level of government, each important social organization, and almost every individual continues to increase the expectations with which the school is confronted and upon which its achievements are evaluated.

Citizens of the United States continue to make large investments in the educational enterprise in spite of its alleged inadequacy in many states and school districts. The reasons for these perennial increases are often beyond the power of school boards or administrators to change. However justified these increasing costs become when viewed in proper perspective and in comparison with the alternatives, they tend to irritate the overburdened taxpayer, whose resistance tends to become a cumulative matter and often one of deep personal concern.

People Want Better Education

Data from the 2000 Phi Delta Kappa/Gallup Poll of the Public's Attitudes Toward the Public Schools makes it clear that there was a "high level of satisfaction with their local schools, a level of satisfaction that this year approaches its all-time high among the parents whose children attends those schools."[7] Most respondents gave good grades to the schools in their own communities, and parents of public school students expressed even stronger satisfaction: Forty-seven percent of those surveyed gave the public schools in their communities an A or a B. Fifty-six percent of public school parents gave their communities a grade of A or B,[8] and 70 percent of public school parents gave the school their eldest child attended an A or B.[9]

However, the 2000 poll continued the significant generalization derived from responses to these questions over the years—which is that the closer respondents are to their public schools, the higher the grades they give them. People give the schools in their own communities much higher grades than they give the nation's schools. Only 20 percent of the nation's schools get an A or B grade.[10] This 27 percent difference from community schools is impressive. The 36 percent variation from public school parents, compared to what people generally think of schools, and the 50 percent contrast with the public school parents of schools where their eldest child attends, are even more striking.

This support of local schools brings into focus two other areas of exploration in the poll. It was discovered that the greatest area of concern is that the "lack of financial support/funding/money has made its way to the top of the list as the biggest problem facing the public schools"[11] and that the "responses affirm the principle of local control."[12] The poll asks:

> where and by whom the public believes decisions regarding local schools should be made.... The public would like to see the federal government have less influence and the state government have somewhat less influence. It views local boards of education as having the right amount or too little say in decisions that affect the local schools. The public seems reasonably satisfied with the role of principals and superintendents, it is ambivalent about the role of local teacher unions, and it would like to see more decisions made by students, parents, and teachers.[13]

When the respondents were asked whether they favor distributing federal funds for specific program activities or giving states flexibility in determining how federal money should be spent, "about seven in 10 indicate that they favor giving flexibility to the states."[14] The public would prefer a lesser voice for the federal and state governments.[15]

Throughout the 32 editions of this poll, respondents were asked to identify the most pressing educational problem with which the local public schools must deal. In a significant change, "lack of financial support jumps to the top of this year's poll."[16] An adequate commitment of funds can realistically be justified on grounds that the people want it. After all, "the expenditure of government funds should reflect the needs, wants, and demands of the people."[17] But the justification for expenditure of public funds for education goes much deeper:

> Mass public education can be justified on the more basic grounds that it creates and perpetuates the culture, promotes social equality, and enhances economic development.
>
> Each of these alone may be ample reason for government to finance education, but to view them in combination leaves little doubt as to the importance of education. Of the three, the most significant is undoubtedly to gain and advance the accumulated culture and knowledge of man, create a respect for humanity, promote the attributes of citizenship, and inculcate ethical and moral character. Education not only preserves the cultural heritage but also exalts the status of man and provides at least a minimum level of citizenship. In this regard the advantages of education cannot be quantified. The benefits of reading a book, appreciating a painting, playing a violin, speaking a foreign language, and understanding a theorem are priceless, even though they may not be of any substantial economic importance.[18]

Demographic Changes

The history of public education in the United States has been one of growth and expansion. Most of the serious problems of financing have concerned increasing enrollments, shortages of buildings and classrooms, inadequate facilities, and the need to employ greater numbers of teachers and other staff members. With such causal factors, taxpayers were generally able to understand the reasons for annual increases in their investment in education. Taxpayers did not, however, anticipate the expanding numbers of high-cost students with disadvantages, disabilities, and bilingual programs for minority groups that were beginning to be brought into the schools, thereby increasing the cost of education per student. For example, the proportion of minority students in elementary and secondary schools increased between 1986 and 1996. Also, as indicated in Table 2.3, the proportion of Hispanics in elementary and secondary schools increased at a greater rate than the proportion of Blacks.

TABLE 2.3 Racial/Ethnic Distribution of Students in Elementary and Secondary Schools: Fall 1986, 1991, and 1996

Race/Ethnicity of Student	Fall 1986	Fall 1991	Fall 1996
Total	**100.0**	**100.0**	**100.0**
White, non-Hispanic	70.4	67.4	64.2
Minority	29.7	32.6	35.8
Black, non-Hispanic	16.1	16.4	16.9
Hispanic	9.9	11.8	14.0
Other, non-Hispanic	3.7	4.4	4.9

Source: Mini-Digest of Educational Statistics, National Center for Educational Statistics, 1998, p. 14.

Similarly, taxpayers did not anticipate that more effective bargaining for higher salaries for all employees, the cost of new and expensive federal programs for exceptional and bilingual students, and the high cost of implementing desegregation programs in some schools would keep the total cost of education on a steep incline in spite of fluctuating enrollments. Of course, demographic changes vary from place to place and from school district to school district.

Research literature and media accounts have been advising educators, policymakers, and the public that enrollment increases are inevitable. Implications for the demand for public school teachers and other education personnel are obvious, and education expenditure decisions by state-local government will need to accommodate expanding resource demands associated with enrollment growth.

Enrollment in preprimary education has increased significantly. The number of 3- to 5-year-old children attending school rose from 1970 to 1998. Enrollment in full-day preschool programs rose sharply in the 1990s (see Figure 2.6).

By 2025, it is estimated that the total U.S. population will be 338 million—more than a 20 percent increase in a 25-year span. The school-age group of 5- to 17-year-olds will increase in that period by 13 percent. That group will make up 17.9 percent of the population in 2001 and 17.3 percent in 2025. The numbers range from 52.2 million school-age children in 2000 to 58.5 million in 2025—a change of 6.3 million (see Table 2.4).

The effect on budgets has been greatest in some of the large urban districts. They have been forced to react with decreases in staff, reductions in pupil services, early closing of schools, elimination of some school attendance areas, and various other methods of reducing the costs of education—all of which reduce the quantity and quality of education being offered.

The population's increasing mobility also results in increased school costs, particularly for new school facilities. As families move, they leave behind partially occupied school buildings and reduced pupil-teacher ratios. They frequently find that the places to which they move have overcrowded classrooms and high pupil-teacher ratios. Such imbalances naturally increase the total cost of education and change the responsibility of the various states and the nation for financing education.

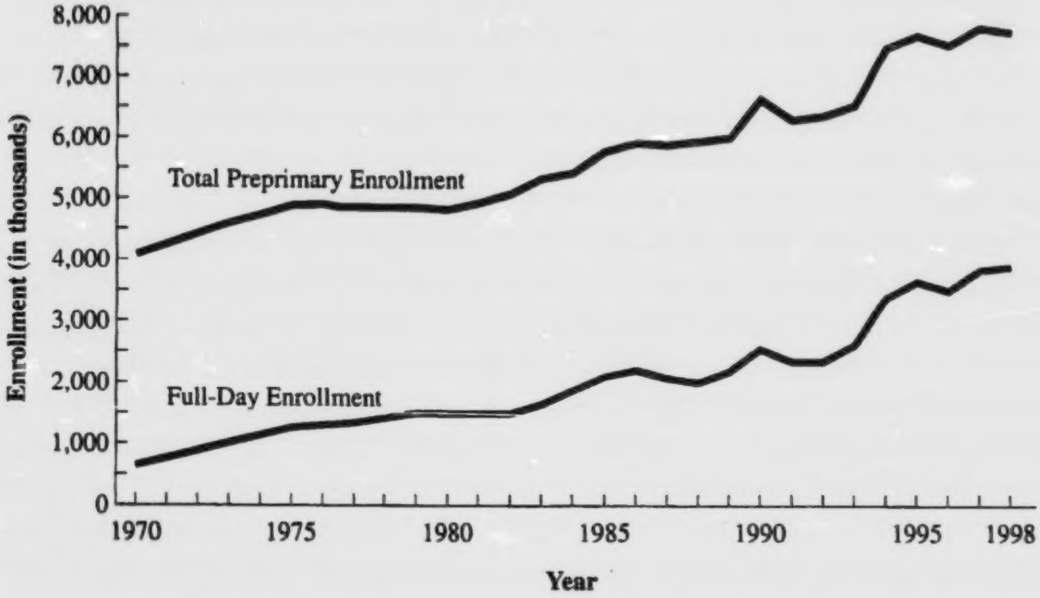


FIGURE 2.6 Preprimary Enrollment of 3- to 5-Year-Olds, by Attendance Status: October 1970 to October 1998

Note: Date for 1994 and later years were collected using new procedures and may not be comparable with figures for earlier years.

Source: http://nces.ed.gov/pubs2000/digest99/chapter2.html.

TABLE 2.4 Projections of the Total Population by Age, Sex, and Race 2000–2025

	Population (1,000)				Percent Distribution		
Age, Sex and Race	*2000*	*2005*	*2010*	*2025*	*2000*	*2010*	*2025*
Total	**276,241**	**288,286**	**300,431**	**338,338**	**100.0**	**100.0**	**100.0**
Under 5 years old	19,431	19,333	20,017	22,372	7.0	6.7	6.6
5 to 13 years old	36,547	36,843	36,213	40,455	13.2	12.1	12.0
14 to 17 years old	15,811	16,947	17,388	17,897	5.7	5.8	5.3
18 to 24 years old	25,911	28,238	30,220	30,585	9.4	10.1	9.0
25 to 34 years old	38,237	36,792	38,179	44,299	13.8	12.7	13.1
35 to 44 years old	45,123	43,075	39,659	42,590	16.3	13.2	12.6
45 to 54 years old	36,170	41,219	44,099	37,534	13.1	14.7	11.1
55 to 64 years old	23,690	28,870	34,552	40,455	8.6	11.5	12.0
65 to 74 years old	18,551	18,623	20,978	35,361	6.7	7.0	10.5
75 to 84 years old	12,438	13,265	13,157	19,274	4.5	4.4	5.7
85 years old and over	4,333	5,082	5,969	7,515	1.6	2.0	2.2
Male	135,101	141,121	147,187	166,012	48.9	49.0	49.1
Female	141,140	147,165	153,245	172,326	51.1	51.0	50.9

Note: As of the 2000 census, which mirrored the actual population as of April 1, 2000, there were 281,421,906 inhabitants in the United States.

Source: Statistical Abstract of the United States (Washington, DC: U.S. Department of Commerce, Economic and Statistics Administration, Bureau of the Census, 1999).

Occupancy of School Facilities

A typical school year is nine months. A few states and many school districts have established year-round schools, extended the length of the school day, or extended the school year. It is a sad commentary on education in the United States that the time actually spent in formal education by typical students continues to be far less than that of their counterparts in most other countries. The waste, not only in human time and development but also in depreciation of empty school buildings and unused facilities for such an extended period of time every year, is a human capital and financial loss that this country can ill afford to sustain. The traditional three-month summer vacation compounds the problem of teacher unemployment; at the same time, releasing students of all ages to long periods of unsupervised activity often creates home and neighborhood problems. Plans for varying the school year and utilizing school buildings to a much greater extent need to be explored, developed, and evaluated.

Effects of Inflation

Although the problem of procuring sufficient funds for educating millions of public elementary and secondary school students has always been a difficult one, the inflation rates of the last half of the twentieth century greatly increased the difficulty. The erosive effect of high and continuous inflation of the dollar on school budgets needs few illustrations and little documentation, for it is an undesirable phenomenon that affects every citizen and every school in the nation. The problem of financing education, once considered the responsibility of only a few specialists with vested interests in the schools—boards of education, school administrators, state departments of education, and state legislatures—developed into a priority item for virtually all citizens.

Uncontrolled inflation causes the dollar cost of education to rise rapidly. Inflation not only reduces the real income of the individuals but it also increases their tax obligations under a progressive income tax system. Inflation causes people to cut back on the purchase of goods and services in an attempt to maintain their economic position. The result is disastrous for schools. At the same time as taxpayers press to reduce their tax burden, the costs of operating an educational program usually continue to increase. Predicting inflation is difficult, for it is very changeable, as Figure 2.7 shows. It is nevertheless an important factor to consider when determining costs of education.

Scarcity and High Cost of Energy

Energy is a crucial factor in the increasing costs of education. Conservation is the key to survival when reviewed in the tumultuous world scene influenced by oil-producing countries. School programs are affected by the cost of gasoline and oil products necessary for the transportation of millions of students to and from school. The cost of a gallon of gasoline and diesel fuel increased by 43 percent from 1999 to 2000, crimping many school transportation budgets. School districts were again hit hard in the winter of 2001, with heating fuel prices in the East and electrical energy prices in the West. Some school districts in the western states had increases of over 50 percent for heating

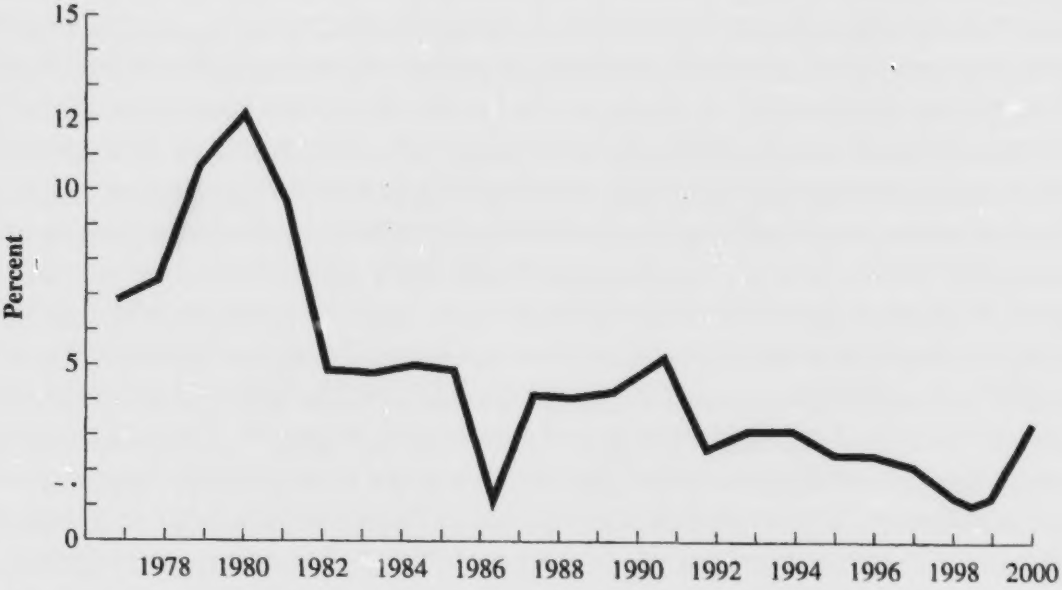


FIGURE 2.7 Inflation Rates, as Indicated by the Consumer Price Index

Source: Statistical Abstract of the United States, 2000, Bureau of the Census, U.S. Department of Commerce, and *Consumer Price Index, Detailed Report,* Bureau of Labor Statistics, U.S. Department of Labor, August 1994. Update: Richard Bahr, Economist, Office of Price and Living Conditions, U.S. Bureau of Labor Statistics, U.S. Department of Labor, October 2000. http://www.msnbc.com/msn/468056.asp.

costs, and California schools were "left in the dark" with the lack of electric power to fully meet their needs. In some cases, school districts in that state were faced with paying extremely high premiums for power to keep schools open.

In general, schools should be well equipped to initiate and carry out their own conservation measures. Some of the lessons this nation has generally ignored about the wise use of limited energy resources can be practiced effectively in school operations. More energy-efficient construction and maintenance procedures can decrease energy expenditures without seriously diluting the overall school program.

Social Indicators

The United States is undergoing significant social changes, including dramatic alterations in the nature of the typical family. The traditional family—two parents with children—continues to decline. Only 33 percent of U.S. families in 1990 met this definition, compared to 40 percent in 1970. Estimates are that in 2010, it will be 25.7—only one in four families.[19] The decline is fueled by the rise in single-parent families which, between 1980 and 1990, showed a 41 percent growth—half of the 82 percent increase between 1970 and 1980. Between 1990 and 2010, this number will likely remain constant. Nearly all single parents are women. Black single parents outnumber Whites by three to one, which represents more than one-half of Black homes. Nearly one in every three Hispanic homes is headed by a single man or woman. In a White, Asian, or Pacific Islander home, there is a single head of household in nearly one in every five homes.[20]

The change started in 1946 when the baby boom began as families were reunited after World War II. The rise in birth continued for 18 years, until 1964. (In 2000, those children range in age from 54 to 36). The 1960s created a new track for household change, with fewer children being born—the baby bust. In the 1970s, women joined the labor force in heretofore untold numbers, divorce rates rose rapidly, marriage rates fell, and married women postponed child bearing. The 1980s were a time of immigration from Asia and Latin America; the poor and the wealthy grew in number while the middle class shrank. In the 1990s, divorce rates declined and a baby boomlet (sometimes referred to as an echo baby boom) occurred. The 1990s concluded 18 years of continual economic expansion. High school graduates of 2000 had lived their entire lives in excellent economic times. Virtual full employment was the axiom for those who had graduated from high school at the beginning of the twenty-first century.

Looking at the future of families in the first decade of the twenty-first century, Americans will likely pursue the same general goals as their grandparents, such as raising children and getting ahead. But the 1980s changed the rules of the game. One of those changes is that the proportion of couples in which the woman is chief breadwinner has been increasing so markedly that nearly one in three working wives nationwide in 2000 is paid more than her husband—compared to one in five in 1980. The trend is particularly pronounced among the most highly educated women, nearly half of whom have incomes higher than their spouses. Rising incomes of wives are an outgrowth of social changes, including education: "By the 1990s U.S. colleges and universities were graduating one-fifth more women than men."[21] Other changes include women's increasing tendency to work full time, not to take time from their jobs to raise children, and to take up occupations that were dominated by men.

The roller coaster of change in household growth rates will continue, for two reasons. The first is the different sizes of the baby boom, baby bust, and echo baby boom generations as they move through the life cycle. The second is that future young adults may delay having children. The late 1990s were the prime household formation years for both the youngest boomers and oldest busters, the larger halves of both generations. After 2000, growth slowed because the youngest baby busters—a very small group—formed new households, and the children of baby boomers will be just beginning to form new households (see Figure 2.8).

Coleman and associates have noted that higher educational achievement is attained by children from higher-income families, by children whose parents complete more years of school, by children who have fewer siblings, and by children whose parents have higher education expectations for them. In contrast, children from single-parent homes and from homes where both parents work achieve lower levels of education.[22] Another study noted that, of 100 children born in 1986 (who, in 2003, are high school graduation age), 18 were illegitimate, 37 of their parents will be divorced, 9 of their parents will be separated, 2 will have one parent die before the child is age 18, and only 4 will be in the "typical" nuclear family—working father, homemaker mother, and two school-aged children.[23]

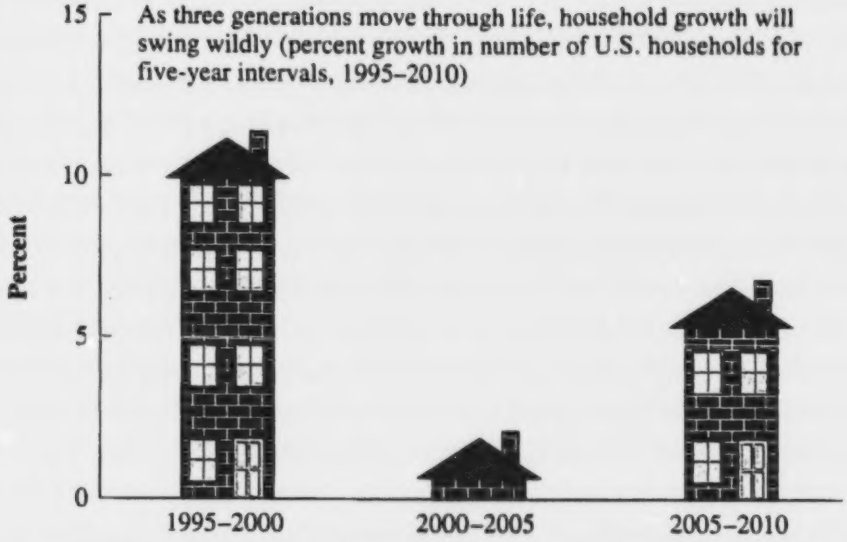


FIGURE 2.8 The Pace of Growth and Households, 1995–2010

Source: American Demographics, December 1993, p. 28.

According to *Deseret News* (April 13, 2001), a 2001 Census Bureau study, authored by Jason Fields, stated that in the prototypical nuclear family—where mom, dad, and their biological children all live together—the percentage of children living in those traditional families rose from 51 percent in 1991 to 56 percent in 1996. As the total number of children increased, more of them were being born into traditional households. One reason for the increase is partly because couples married or began having children later in life and many of them are forming as traditional nuclear families. Still, one in three babies is born to unmarried parents. Present socioeconomic conditions are in flux and educators are hard pressed to recognize their impact on individual students, classrooms, and schools.

The Consequences of Not Educating People

Perhaps all people think of the high costs of educating the nation's citizens, but comparatively few give much thought to the higher cost of *not* educating them. Crime rates and costs related to public welfare or private charity are much greater among those who have an inadequate education to allow them to succeed in today's society than for those with an adequate education. The direct costs to taxpayers of keeping a person incarcerated are many times the per-pupil cost of educating a student. Additional costs are incurred by the victims, and often by the prisoner's family. In the future, the costs of dealing with failing to educate the populace will undoubtedly be exponentially greater than would be the provision of additional finances for a quality education for all the people. Failure to apply the theory of equality of educational opportunity results in some penalties to the students involved and is a costly injustice to society in general.

Literacy

Often overlooked while examining adequacy in public school finance issues are the basic proficiencies in literacy, numeracy, problem solving, and high school completion. The mastery of these basics is essential for a productive life. The simple ability to read and calculate offers opportunities for further education and employment. Illiteracy leads to dead-end employment.

Several special-interest groups have provided statistical information that seemed to inflate the percentages of illiterates in America, by using devices to show that a person was illiterate if he or she could not distinguish between *infer* or *imply, while* and *when,* or *surprised* and *astonished.* The U.S. Department of Education developed three scales to test literacy skills: prose, document, and quantitative. *Prose literacy* is the ability to understand and use information contained in various kinds of textual material. *Document literacy* reflects the knowledge and skills used to process information from documents. *Quantitative literacy* is the ability to perform numerical operations in everyday life.

The relationship among young adults of different ethnic groups as they relate to literacy skills is shown in Figure 2.9. For all ethnic groups, literacy development is clearly related to their level of education. However, for similar amounts of education when compared to the average literacy skills of occupational groups (shown at the far

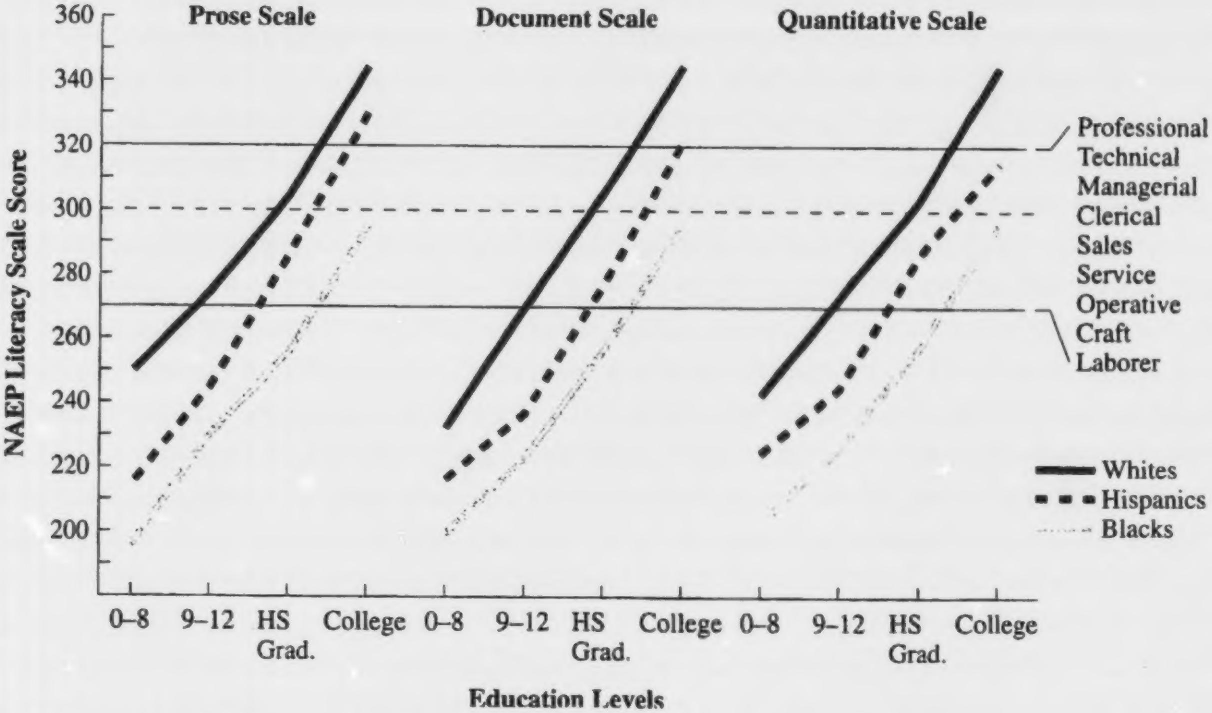
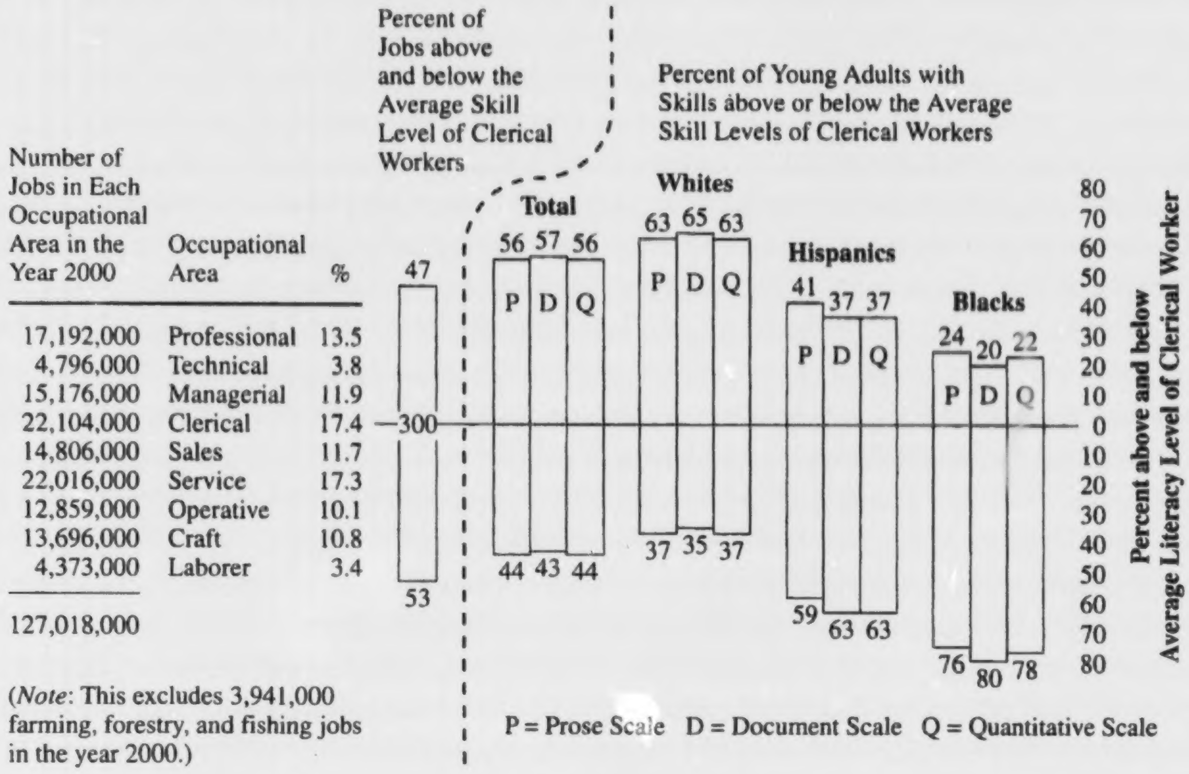


FIGURE 2.9 **National Assessment of Educational Progress (NAEP) Literacy Scale**

Source: http://www.nald.ca/www.nald.ca/fulltext/adlitus/Page137.htm.

right side), the ethnic groups differ greatly in the amount of literacy skill achieved. Both Latino and Black high school graduates score well below the average skill level of clerical workers, whereas White high school graduates score above that level. Indeed, with average scores slightly below 260 on each literacy scale, Black high school graduates score well below the average skill level of around 270 for laborers.

Reading Figure 2.10 from left to right shows that in the year 2000, there were over 17 million professional jobs, some 22 million clerical jobs, and just over 4 million laborer jobs (the data exclude 3.9 million forestry jobs because there were no corresponding data on jobholders and their literacy skills for this category in the sources summarized). About 53 percent of jobs are fields with skill levels below that of the average clerical worker, whereas some 56 to 57 percent of young adults have skill levels in Prose, Document, and Quantitative literacy above that level. However, while two-thirds or more of Whites and 37 to 41 percent of Hispanics possess skill levels above the average level of clerical workers, only one in four or five Blacks have literacy skills above the average for clerical workers. In President George W. Bush's 2001 education proposal, he declared that "reading is the new civil right, the cornerstone of hope and opportunity in America."[24]



Number of Jobs in Each Occupational Area in the Year 2000	Occupational Area	%
17,192,000	Professional	13.5
4,796,000	Technical	3.8
15,176,000	Managerial	11.9
22,104,000	Clerical	17.4
14,806,000	Sales	11.7
22,016,000	Service	17.3
12,859,000	Operative	10.1
13,696,000	Craft	10.8
4,373,000	Laborer	3.4
127,018,000		

(*Note*: This excludes 3,941,000 farming, forestry, and fishing jobs in the year 2000.)

Percent of Jobs above and below the Average Skill Level of Clerical Workers
47
—300
53
Percent of Young Adults with Skills above or below the Average Skill Levels of Clerical Workers
Total
56 57 56
P D Q
44 43 44
Whites
63 65 63
P D Q
37 35 37
Hispanics
41 37 37
P D Q
59 63 63
Blacks
24 20 22
P D Q
76 80 78
80 70 60 50 40 30 20 10 0 10 20 30 40 50 60 70 80
Percent above and below Average Literacy Level of Clerical Worker
P = Prose Scale D = Document Scale Q = Quantitative Scale

FIGURE 2.10 Prose, Document, and Quantitative Literacy Levels

Source: http://www.nald.ca/www.nald.ca/fulltext/adlitus/Page136.htm.

Unemployment

Unemployment is closely related to lack of adequate education. Figures show that it is much more of a problem to school dropouts and to those with a minimum education than to those who have attended schools and succeeded academically. Unemployment in the late 1990s, for workers 25 years and older, was 7.2 percent among those who had not graduated from high school. High school graduates' unemployment was 3.9 percent. For those with high school diplomas but less than a bachelor's degree, it was 3.2 percent. Unemployment was only 1.9 percent for college graduates (see Figure 2.11). Those with adequate education are usually able to adjust to new jobs and new occupations more easily and with less frustration than those with limited schooling.

According to the National Committee for Support of the Public Schools, the great financial and social losses from unemployment can never be recovered:

> Economic losses from unemployment are never regained. The social costs of unemployment are even greater than the economic losses. The discouragement and frustration of able-bodied men and women, eager to work but unable to find employment, cannot be measured in dollars any more than can the distress of their families. Prolonged unemployment contributes to further unemployment, since human capital deteriorates when it is idle. Unemployment impairs the skills that workers have acquired. It also contributes to family disintegration, crime, and other social ills.[25]

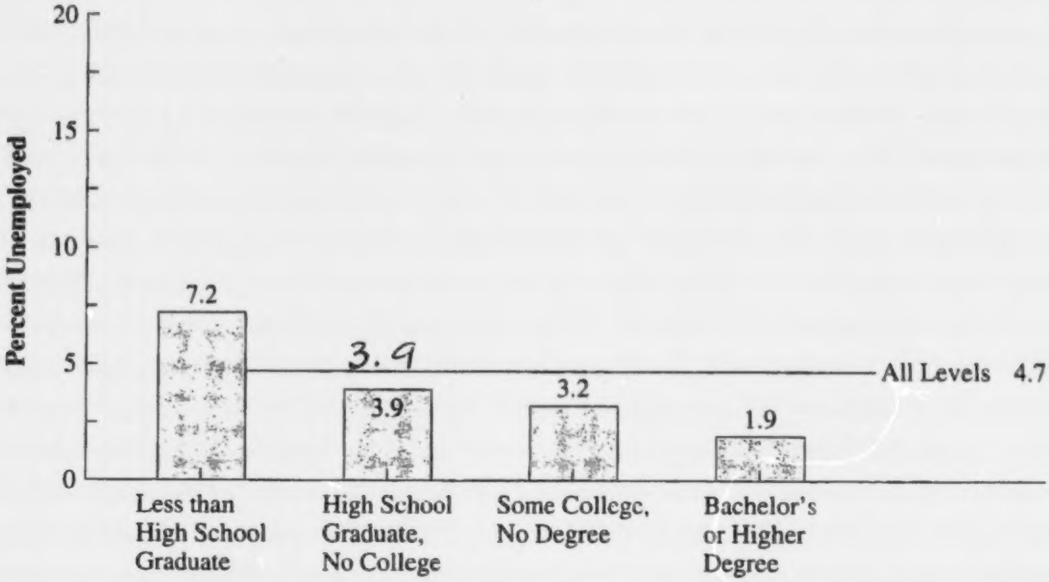


FIGURE 2.11 Unemployment Rates of Persons 25 Years Old and Over, by Highest Level of Education Attained: 1998

Source: U.S. Department of Labor, Bureau of Labor Statistics, Office of Employment and Unemployment Statistics, unpublished data. http://www.nandosearch.com/newsroom/ntn/biz/020698/bizt_24537_noframes.html.

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Military Service Incapability

Undereducation saps the nation's defense potential. Vice President Richard Cheney, while serving as Secretary of Defense, stated that the United States is not interested in soldiers without high school diplomas. He indicated that modern warfare in an era of Patriot missiles, Stealth airplanes, and other sophisticated weapons could not endure a poor or inadequate education.[26]

Figure 2.12 depicts strong evidence for the importance of education in job performance in the military. The figure shows three groups of military workers having reading grade levels of 4–6.9, 7–8.9 and 9–11.9 on the horizontal axis. There are two types of workers, supply specialists and automobile repairman (mechanic). The filled points show how well workers performed actual job sample tasks in a test situation. Proficiency increased across all three reading groups. The effects of both having higher levels of reading skill represents about a 20 percent increase in productivity due to both having and using higher levels of reading ability.

Prison Incarceration

According to the Bureau of Justice Statistics, there are nearly one and a half million inmates locked up in state and federal prisons in the United States. During the 1990s, the average annual increase in persons committed to prison was nearly 7 percent. Prisons are populated with individuals who have little formal education; 41.2 percent of them are high school dropouts.[27] The District of Columbia, which has the highest high

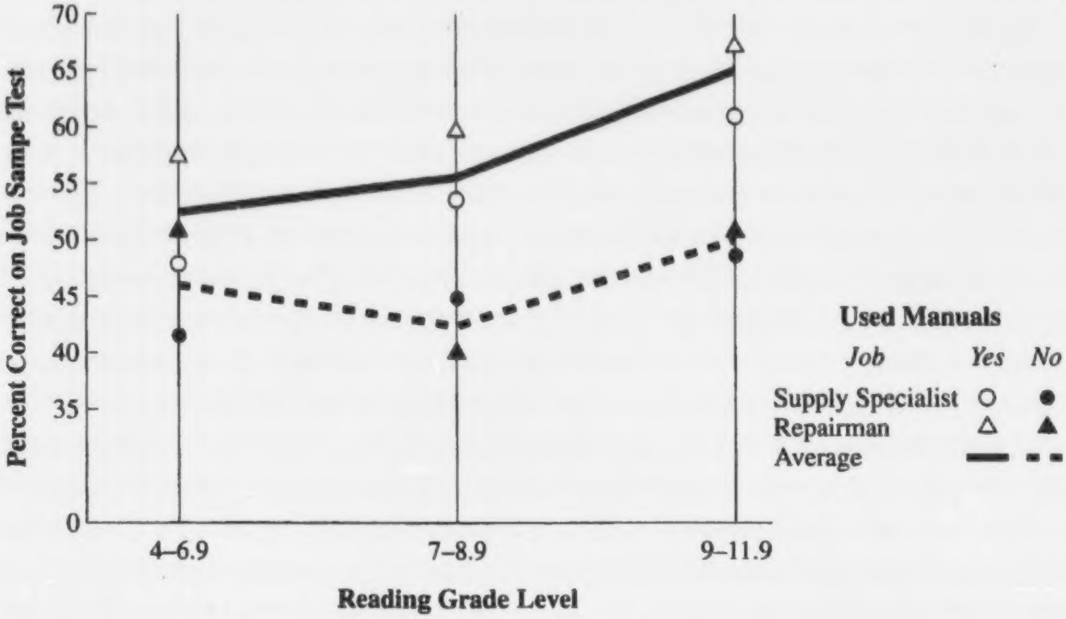

FIGURE 2.12 Performance as a Function of Reading Ability

Source: http://www.nald.ca/www.nald.ca/fulltext/adlitus/Page140.htm.

school dropout rate (10.6 percent) in the United States,[28] also has the highest prisoner incarceration rate (1,913 per 100,000 inhabitants).[29] Minnesota, which has the lowest prisoner incarceration rate[30] (117 per 100,000 inhabitants), has arguably the best record in the United States in high school achievement: 87.9 percent of their population 25 years old or over have high school diplomas or higher, and 93.3 percent of 18- to 24-year-olds are high school graduates.[31]

While the public school district expenditures per student in the mid-1990s was $6,647,[32] the Bureau of Justice Statistics found that a year in a state prison costs $21,400 per inmate[33]—an alarming difference of $14,753. If those high school dropouts would have remained in school, it could have perhaps saved the taxpayers of the United States more than *9 billion dollars* as well as undeterminable human suffering and problems.

As America continues to retreat from its commitment to equalizing educational opportunities that provide constructive paths to responsible adult life experiences, it will almost certainly continue to lock up a growing share of the population, currently in excess of 3 percent of its inhabitants. The focus should be on providing a good education rather than suffering from the lack of a good education.[34]

Inadequate Occupational Preparation

The media are replete with reports that applicants seeking occupational positions in business and industry lack adequate educational preparations. Business and industry have implemented basic education and retraining programs to overcome these inadequacies. This condition results in an obvious waste in time and cost for U.S. industry. The employment status of high school graduates is higher than dropouts. For example, in 1998, only 3.9 percent of the graduates were unemployed; for dropouts, 7.2 percent were unemployed—nearly twice as many (see Figure 2.9).

Education is an investment in human skills, involving both a cost and a return. In summarizing statistics on the employment benefits of education, the U.S. Department of Education notes the following: "Among the returns related to the labor market are better employment opportunities, jobs that are less sensitive to general economic conditions, better opportunities to participate in employer-provided training, and higher earnings.... The immediate difficulty of making the transition from full-time school attendance to full-time work appears much greater for those who leave school before finishing high school."[35] Education is the key to improving the quality of life for individuals, for improving the climate of economic development, and for maintaining and improving this nation's democracy and economic competitiveness."[36]

Although accurate figures are not available, the mass rejections of unqualified applicants seeking occupational positions in business and industry indicate a high percentage of people with inadequate educational qualifications. This condition results in an obvious waste of much of the time and cost of maintaining employment offices. Unsuccessful job hunting represents a big loss to employers as well as to those applying for positions. The problem becomes more acute as technology replaces common labor and the qualifications and skills required in most occupations continue to increase.

Dependence on Public Relief

There appears to be a high positive relation between inadequate education and an individual's need for financial assistance. A number of studies have shown that recipients of public assistance are likely to be individuals of low educational attainment.

A Chicago study of relief recipients showed that 50.7 percent of the sample studied could not pass reading and vocabulary tests at the fifth-grade achievement level. "The conclusion was that the problems of public welfare stem from unemployment and economic and technological displacement and, most important, from relief recipients' lack of basic educational skills which are essential to compete in our modern society."[37]

A high positive relationship between inadequate education and an individual's need for financial Aid to Families with Dependent Children (AFDC) has been shown in several recent studies. Recipients of public assistance are likely to have less education than nonparticipants. Levitan stated, "'AFDC' mothers have substantially lower educational attainment than adult women in general. Only three out of seven completed high school, compared to five out of seven of the entire adult population."[38] Nineteen percent of families headed by a female householder with no husband present and living below the poverty level have had eight years or less of education.[39] Only four-tenths of one percent have graduated from college.[40]

Studies have been conducted to try to determine the characteristics of long-term recipients of welfare in order to "target employment and social services toward them in an effort to reduce their dependency, both for fiscal and humanitarian purposes."[41] Ellwood indicated that the length of time or duration for welfare dependence would be affected by three factors, two of which were related to education. He stated, "The single most powerful predictor of duration, when all else is not held constant, is marital status.... Race and education also show powerful effects.... The group least at risk is older women with strong education and work experience."[42] Ellwood continued: "If years of schooling were the only factor that differed among AFDC recipients, we would predict that those with fewer than 9 years of education would tend to have longer first spells of AFDC (5.6 years) than would those with more than 11 years (3.7 years)."[43]

In a March 1995 study, the U.S. Census Bureau reported that "close to half of all welfare mothers never finished high school." In its first survey of women collecting Aid to Families with Dependent Children, it stated that 44 percent of welfare mothers, ages 15 to 44, "lack a high school diploma." Nearly half (48 percent) of AFDC mothers have never been married. It was noted that recipients of welfare are poorly educated. Some 85 percent of those not on welfare graduated from high school—a dramatic difference.[44] There are many reasons why families may need public assistance. Lack of education shows up as a significant factor. Compounding the problem, those with less education need assistance for a longer period of time.

High Health Costs

The Center for Disease Control and Prevention (CDC) has issued a major study about health and education in the United States. The CDC found that there was a correlation between health and education. The correlation was across the board for all races. "Americans who never graduated from high school are more likely to smoke, live a sedentary life and be overweight than more educated people." The study came to the following conclusions:

- Smoking, excess weight, and lack of exercise put people at risk for heart disease, stroke, diabetes, and cancer—which account for 70 percent of all deaths in the United States.
- People with less than 12 years of education are most likely to engage in those high-risk behaviors.
- For male Asians and Pacific Islanders, 34.4 percent of those with less than a high school diploma smoked, compared to 16.3 percent of those with more than 12 years of schooling.
- Among Black women lacking a high school diploma, 50.9 percent were overweight, compared to 28.9 percent of those with more than 12 years of schooling.
- For Asians and Pacific Islander women with less than 12 years of education, 17.6 percent smoked, compared to 6.4 percent of those with more than 12 years' education.[45]

In a report issued by Region VIII of the U.S. Department of Health, Education, and Welfare, when considering the closest correlation between infant mortality and causes—such as prenatal care, race, religion, geography, educational level, and so on—the most significant factor was the educational level of the mother. The higher the education of the mother, the lower instances of infant mortality occurred.

Society Suffers the Effects of Poor Education

The individual who suffers the consequences of poor or inadequate education is not confined to a particular ghetto area, town, city, or state. The frustrations that unemployment, inadequate income, and substandard living conditions bring often produce high mobility rates among those who suffer them. The problems related to poor education in one locality then become the welfare or reeducation problems of another community. High mobility rates of people may quickly move the problems of the disadvantaged (higher welfare and law-enforcement costs, for example) from the source of their creation to a state or locality whose educational system is adequate or even superior. Thus, the effects of poor education cannot be localized. The problems of providing adequate and high-quality education are not only local but are also statewide and national in scope. No longer can states and districts have concern only for their own citizens.

Education and Accountability

The spiraling costs of education and the changing social climate of the country have combined to raise serious questions concerning public education. Have the increased costs resulted in proportionately increased productivity? Why has the public lost confidence in the schools? Why does the public not accept the arguments for increased costs of education as explained by the professionals? These are a few of the unanswered questions that have resulted in taxpayer revolts, student militancy, racial unrest in the schools, and a general deterioration in the traditional confidence that many citizens have shown in the nation's schools.

In response to those questions, the states are requiring some measure of accountability. Typical of various plans to hold schools more accountable for academic results was a program unveiled in January 2000 in California. That state's system is based on students' performance on the Stanford Achievement Test–9th Edition. Based on the Stanford–9 results, a score of 10 is assigned "to schools that rank in the top 10 percent of schools statewide, and a score of 1 to those schools scoring in the lowest 10 percent." A second ranking compares a school's test scores with those of other schools "that have similar demographics." Some $96 million in state aid has been proposed to help the low-performing schools. However, if schools fail to meet certain levels of improvement, "sanctions including, in extreme instances, a state takeover" are possible. Many state educational leaders and some federal officials have called for comparable accountability measures in their jurisdictions.[46]

At the federal level, President George W. Bush in his call for educational accountability, outlined a plan that would "give local officials more control, hold failing schools accountable and teach all children to read by the third grade—principles shared by Democrats and Republicans. Our goal is to improve public education. We want success. And when schools are willing to accept the reality that the accountability system points out, and are willing to change, we'll help them."[47]

The Public Demands Improvement

The public demands improvement and increased efficiency in the operation of public schools. The cry of the people is couched under the broad umbrella of *accountability*. The accountability movement has gathered momentum; critics as well as friends of public education hold the schools firmly accountable for making output commensurate with input. Public sentiment virtually demands that the educational establishment produces objective information and proof that the schools are achieving their intended objectives and that in the process they are using tax revenues efficiently.

Although actions toward accountability are desirable and should be encouraged, some potential dangers are inherent in rushing too quickly into the process. One danger is that taxpayers may expect the schools to be accountable, at the same time ignoring their own responsibility for providing adequate funds for achieving the comprehensive goals of education. Closely related is the possibility that some lawmaking bodies may, without fully understanding the ramifications, legislate school accountability laws; these could involve such questionable notions as requiring all pupils to take certain academic examinations to determine the degree of success or failure of the schools to achieve their purposes.

Equality Not Yet Attained

Equality of educational opportunity is sound philosophy. Lawsuits in some states demonstrate the changing attitudes of people toward this concept of opportunity in education. In *San Antonio Independent School District* v. *Rodriguez* (1973),[48] the Supreme Court ruled that education is not a *fundamental right* under the federal Constitution; the state may provide merely a minimum foundation educational program. Yet states should deal fairly and objectively with social injustices and base their decisions for change on educational premises, for some state courts question their own response to equity.

One of the primary problems in this regard—dealing fairly and objectively with social and racial injustices—must base its chances for solution on education. The disadvantaged people that congest urban areas must be given the educational opportunity and the motivation to bring them into the mainstream of society and social progress. No other agency or institution has greater hope and greater responsibility than education for eradicating the hazards that prevent such a cultural and economic improvement. Just as the schools have justified national faith in them in their responsibility for dissolving the great problems created by differences in national origin of students, so are they now challenged by the tremendous problem of providing equality of educational opportunity. The price of such a worthy goal will be high in dollars and human effort, but it is a price that all thinking citizens will be willing to pay. If education fails in this, its most challenging charge, future generations may never receive the same chance or responsibility.

Underinvestment Is Poor Economy

The determination of the optimum amount of money the nation should invest in education is a difficult problem. Although there are numerous schools without financial problems, there are also many that operate with inadequate laboratories, limited libraries, overcrowded classrooms, and poorly trained teachers. Of course, not all the limitations of poor schools are the result of insufficient financing. Adequate revenues provide the possibility of producing a good educational program but do not guarantee it. Inadequate revenues, however, will almost certainly guarantee a poor educational program. No prudent person would invest large sums of money in an enterprise and then forget it or refuse to use all possible means of protecting that investment. Sometimes adequate protection may involve spending additional funds. Such is the case with investment in education, for inadequate future expenditures may result in loss of all or a major part of the original investment.

Every economist and most intelligent citizens readily recognize the fallacy of assuming that economy requires spending the smallest amount of money possible in purchasing a good or service. Certainly, examples of underspending that have resulted in lack of protection of original investment are easy to discern in any area of business, industry, or education. For example, the school board that employs an unqualified or incompetent teacher at low salary, or refuses to keep its buildings and equipment in good repair with the excuse of saving money, will sooner or later recognize such actions as poor business and a violation of true economy. The educational system that provides only a small part of an optimum program for its students will at some time come to realize that the taxpayers' investment in human capital has not been protected adequately. This country must protect the value of its investment in the education of its citizens; this cannot be fully measured in standard dollars and cents. It must also protect the individual's indirect and intangible benefits that are a part of the educational process.

Three publications—*The Economist, Wall Street Journal,* and *Forbes*—maintain that the proportion of the American population living in poverty was higher in 1998 than in 1973. Further, the poverty rate in 2000 was significantly higher for immigrants than for the native born: 18 percent versus 12 percent. *Forbes* quoted Harvard University economist George J. Borjas, who stated that "the wage gap between high school dropouts and educated labor widened by ten percentage points between 1979 and 1995."[49]

Education, or the lack of it, has serious social consequences. Hodgkinson stated:

> In a state that retains a high percentage of its youth to high school graduation, almost every young person becomes a "net gain" to the state—with a high school diploma, there is a high probability of that person getting a job and repaying the state for the cost of his education. However in a state with a poor record of retention to high school graduation, many youth are a "net loss" to the state, in that without a high school diploma, the chances of that student getting work and thus repaying the state for that person's education, are very small indeed.[50]

A Question of Priorities

In the past, educators and economists have done remarkably well in convincing large numbers of taxpayers that education is an investment in people. But they have done less well in showing the investors how much they have earned on the added investments that education has required each year. In our current frenzy to try to place a dollar value on the student who submits to the educational process, it must be understood that cost-benefit studies have not been producing conclusive results concerning this complex problem and cannot be expected to do so.

All groups of people who are concerned with education appear to be demanding their own version of accountability—often with little regard for their own responsibility. But the principle of accountability applies to all segments of the school complex: administrators, students, teachers, boards of education, parents, and the legislative bodies. The public schools cannot prosper or achieve their intended place in the lives of their students if any one of these groups is not held accountable to play its part in the educational process. However, the important point as far as school finance is concerned is that the educational fraternity—administrators, teachers, and other staff members—should note that the taxpaying community needs and demands more comprehensive and objective ways to measure output of education compared with input. Without such accountability, the economic theories and principles that are generally followed in financing education may be counterbalanced by the actions of skeptical taxpayers. Education will suffer irreparable damage if the public decreases its support because of insufficient evidence that schools are doing what they purport to do.

Many people believe that education is receiving its equitable share of the wealth of this country and that even in its state of affluence additional funds are not available.

Others insist that the nation's priorities are inconsistent with its values and that there is little, if any, defense for the fact that more is spent on cosmetics, liquor, and tobacco than on education.

Summary

Most citizens of the United States recognize education as "big business." The taxpayers of the country often do not give it high enough priority so that it can receive the resources it requires.

There are numerous reasons for the greatly increasing costs of education year after year. These include: (1) the nation's educational goals and objectives continue to increase, (2) communities are constantly demanding more and better services from the schools, (3) more programs and professional services are being provided for high-cost students such as the disabled, (4) inflation has increased, (5) the cost of treating students in alternative educational settings has accelerated, (6) energy costs have increased, and (7) changing social and demographic influences affect expenditures.

As expensive as public education may be, the cost to society of not educating people is much higher. The detrimental effect of illiteracy on employment, on military capability, and on the size of welfare and relief rolls is strong evidence of the costliness of permitting people to remain uneducated.

Financing education at less than an adequate level is poor economy. With such a large investment in buildings and facilities, the 50 states must provide enough revenue to protect that investment and to achieve the best possible education for all their youth, regardless of their place of residence, the wealth of their parents, or the wealth of their school district.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *adequacy, demographics, inflation, social indicators, current dollars, constant dollars, accountability, literacy, numeracy.*
2. Show by a review of some school districts that have experimented with an extension of their school year what the problems and the advantages of such extensions are.
3. What evidence can you find that increasing social problems are causing large increases in the annual costs of public elementary and secondary education?
4. Show how projected demographic and economic changes in a local area will affect the revenue and expenditures of the school district. Determine what school officials should do to prepare for such changes.
5. Determine what research and innovation is being done in a local school district. What are the direct and indirect costs? Who will benefit? What research is needed? What technological changes are needed?

6. Study the shift in population within a state and report on the impact it has had on the finances of various local districts within the state.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER

3 Financing Education Equitably

We ought to finance the education of every child in America equitably, with adjustments made only for the greater or lesser needs of certain children. And the funding should all come from the collective wealth of our society.

—Jonathan Kozol, 2001

Equally difficult and important as financing education adequately is the challenge of distributing and expending available revenues with fairness to schools and to students, regardless of their location within a state. This is the principle of *equity,* or fairness. *Equity* should not be considered synonymous with *equality* in this context.

Equality, as it relates to educational opportunity, is a fundamental principle in U.S. education. Democracy is best served by extending to all children not only the ability to read, write, numerate, and compute but also by providing an equal opportunity to attend schools that are adequate for the achievement of self-realization, economic sufficiency, civic responsibility, and satisfactory human relationships. Equality in this sense does not mean an identical education for all children, but rather the provision of certain minimum essentials, with no ceiling on opportunity. Spending the same number of dollars on each student is evidence of *equality,* but it may not be equitable—some students, such as those with special needs, require greater expenditures for their education than do other students.

The problem of equity as it applies to financing public education is often discussed in the literature. The following statements illustrate the concern with which writers discuss equity as it applies to the various school finance systems of the nation: "Equity in school finance systems is a complex concept." "Equity is difficult to define." "Taxpayer 'equity' and 'social justice' are terms often used but seldom defined." "Equalization and equity in school finance have different meanings for different people." Natale noted, "Although it is rooted in numbers and complicated school financing formula, equalization is an emotional issue that evokes powerful images of disparity between educational haves and have-nots. At the heart of the controversy—

often portrayed as a struggle between classes—is the issue of equal educational opportunity for all."[1]

Sue Books portrayed the problem of defining equity in these terms:

> Because little consensus exists, even among educational researchers, either about what *equity* means or about how it ought to be measured, it is difficult to answer the seemingly straightforward question: How equitable is school funding? It depends. Inequitable in the sense of unfair or in the sense of unequal? And unfair or unequal from whose perspective—public school students or the taxpayers who fund their education? Finally, inequitable with respect to what: funds allocated, dollars actually spent, the quality of education students receive, or the level of educational achievement they attain?[2]

Inequalities in Financing Education

As previously stated, education should be financed and operated equitably, but this cannot and should not be done with complete equality, because of the many differences in the abilities and needs of students. Benson and associates emphasized this point in the following:

> Obviously, providing equal dollar inputs for unequal students produces unequal results. Equal spending does not make education the "great equalizer of the conditions of men" as Horace Mann suggested.... If education is to facilitate the movement of the poor and disadvantaged into the mainstream of American social and economic life, if it is to afford everyone equal probability of success (however one defines it), then equal facilities, teaching skills, and curriculums are not the answers. Additional resources must be made available to students who enter and pass through the educational system with handicaps such as language barriers for which they are not responsible. We do not know how much more should be spent to make these additional resources available.[3]

This apparent dilemma has received considerable treatment by writers in the field, as well as in the formulas for financing education adopted by various states since the court ruling in *Serrano* v. *Priest* (1971)[4] and many legal cases since. A few of these rulings have been misinterpreted or overstated in their application. For example, in *Serrano,* the principle of fiscal neutrality was established—a child's education must not be affected by wealth, except the wealth of the state. This principle, made applicable as a standard for California by the court and applied in practice to some other states as well, did not mandate equal dollar expenditures per child in any state. It did not rule out expending more money for children with higher educational costs—such as those who are bilingual or from minority populations, those who have disabilities, and those who require compensatory measures. It did not exclude property taxes as a basis for local financial support of education. In short, it did not legislate equality in financing education.

Equity Issue Revisited

The equity issue that fomented a revolution in state spending on public schools during the 1970s resurfaced with greater impact during the 1980s. The next decade brought little relief, as the momentum continued with a third thrust that included court action in these states: Texas (1989, 1991, 1995), Montana (1990), Oregon (1991), Massachusetts (1993), Minnesota (1993), Tennessee (1993), Arizona (1994), Kansas (1994), Maine (1994), North Dakota (1994), Virginia (1994), Rhode Island (1995), Wyoming (1995), Illinois (1996), Alaska (1997), New Jersey (1985, 1994, 1997), Vermont (1997), Ohio (2000), and Wisconsin (2000). In July 2000, 40 of the 50 states have been or were involved in litigation contesting financial aspects of school funding.

The disparities in per-pupil spending is a continual concern. For example, at the time of the 1971 *Serrano* case, the ratio difference between two districts was 1 to 6.2. In more recent cases, the range was still extreme, as noted in the following:[5]

Texas	$2,112 to $19,333	9.2 to 1
North Dakota	$2,085 to $11,743	5.6 to 1
Ohio	$4,000 to $12,000	3.0 to 1
Virginia	$2,979 to $7,726	2.6 to 1

Solving the dilemma is not an easy task; researchers have used various criteria to determine equity, but find it elusive. Some suggest that if per-pupil funding or expenditures are within 10 percent limits, then equity is attained.

Equity in the support of the educational program does not always produce equal learning. Many factors other than money affect educational achievement. These include, but are not limited to, the quality of the family, the intelligence of the student, school leadership, time on task, school climate and culture, community attitudes, parental support, high expectations by the teacher, curriculum, and instructional strategies. Some districts, because of location, may attract and retain good teachers and administrators, which affects learning. Individual students may take better advantage of opportunities than other students.

Quality versus Fiscal Equity

Emphasis on excellence has resulted in differences of opinion about equity. Some believe additional resources should be targeted to guarantee quality. Those who espouse excellence as a priority see the main goals of financing education to be the attainment of quality. Others feel that states have yet to reach fiscal equity and that the priority still rests there. Those who promote equity based on quality emphasize that districts that do better on prescribed standards or outcomes should be rewarded monetarily—that the use of dollars should be refocused from attendance to competence. Grants should be given to those schools and districts that demonstrate excellence; state support should be differentiated according to the quality of instruction. Rewards should be given to districts that show improvement. Advocates of fiscal equity would rely on formula grants, cost reimbursement, general aid, and special support for students who are poor, are low achievers, and have special needs.

In regard to this dilemma, Odden stated:

> Some people worry that the concern for excellence will submerge the concern for fiscal equalization, that students from poor and minority backgrounds will be forgotten in the push for excellence (with its attendant emphasis on mathematics and science), and that the focus of the excellence movement on the process of schooling will erode the legal base for improving education for the poor (since the courts are reluctant to interfere with the educational process).
>
> Other people claim that the extra dollars now spent on fiscal equalization could be better spent on promoting excellence, that the fragmentation that equity necessitates is in conflict with the integration that school improvement demands, and that competitive grants are more likely than formula grants to stimulate efficiency.[6]

The document, *A New Compact for Learning,* developed for the Commissioner of Education for the state of New York, indicated that "measures of outcomes and outcome equity can be developed, although the task is complex and what we would like to do generally exceeds current measurement efforts."[7] And "the distinction between inputs and outcomes becomes ambiguous...the ambiguity prompts the realization that moving toward outcome-based entitlements is a matter of degree rather than kind and invites more scrutiny regarding the outcomes produced in the course of generating learning gains."[8]

One is hard pressed to find fault with stressing quality outcomes in the education process. The conflict in school finance is that equity in providing equal dollars per student has still not been attained in most states. Outcome equity as described in the New York study will require considerably more dollars than the present system and it seems most likely that revenues for *quality* programs will come from categorical entitlements rather than as part of a foundation program.

Equity: An Objective of School Finance Reform

Traditionally, each state has enjoyed almost complete freedom in the way it has allocated funds to local school districts. Some states chose to leave the financing of education almost completely to each local district; others used grants of varying kinds to alleviate local overburden; and still others used equalization programs of varying degrees of complexity.

Allocations of state money to local districts have usually been made on the basis of the number of pupils to be educated and in terms of the ability of the district to finance a minimum or foundation program. Equality of educational opportunity has been interpreted to mean providing the same amount of money for each pupil who is to be educated. Gradually, however, financing formulas have recognized that it costs more to educate some pupils than others. Among the earliest changes in this regard was providing more money per pupil for those who lived in rural areas where the unit cost of education was higher and where transportation was an important cost factor. Later, the provision of additional funds for educating exceptional children, especially the physically and mentally disabled, became acceptable and desirable. Today, one of the great needs is for special financial consideration for large city and metropolitan districts, where deprivation, tax overburden, and racial and ghetto area problems have increased the unit costs of education well beyond those in average districts.

Implementation of programs with unequal amounts of money per pupil is fertile ground for confrontation and litigation. In one form or another, the issue of equal protection of all citizens as provided by the Fourteenth Amendment has often been a matter of litigation. In 1954, the Supreme Court required equal rights for the education of all citizens regardless of race, stating: "In these days, it is doubtful that any child may reasonably be expected to succeed in life if he is denied the opportunity of an education. Such an opportunity, where the state has undertaken to provide it, is a right which must be made available to all on equal terms."[9] By 1962, geographic discrimination was eliminated in the legislative reapportionment decision. By 1965, the Court had determined that lack of financial resources could not be used to deny criminals equal protection of the law. In 1968, the courts faced the issue of unequal protection of students because of unequal expenditures of money for children attending different school districts.

The main thrust of the decisions in *Serrano* and other cases in the new century are still evaluating the equity or fairness issue. The school finance reforms in most of the 50 states seem to echo the words *sameness, standardization, fairness,* and *equity.* The new formulas generally emphasize two aspects of equity: fairness for the children who are being educated and fairness for the taxpayers who defray the costs of education.

Equity for Children

Equity for children concerns fairness in the amount of revenue and the services provided for children—the actual expenditures per child. To be completely fair, such equity would involve all funds expended, but common practice in comparing such expenditures usually includes only local and state revenues, disregarding federal finance programs. Such comparisons also usually include only current expenditures, ignoring the area of capital outlays.

Equity for children should be more concerned with equality of output than with equality of input in the educational process. Since the input is only a means to an end, equity should involve evenness of attainment of school objectives. There must be some accurate measurement of achievement, competencies developed, degree of fulfillment of requirements for graduation or grade advancement, attainment of positive attitudes and habits, and similar goals of an educational program.

At present, equity for children can best be measured in terms of comparing the expenditures per child. However, many studies have been done to show that even horizontal equity (equal treatment of equals) has many ramifications when attempting to use a simple allocation of providing districts with an equal amount of revenue for each child in the district. For example, even within a district, inequities are immediate in learning environments, support services, facilities, availability of books and supplies, and many other factors. Vertical equity (unequal treatment of unequals) complicates the fairness issue even further, and is more difficult to determine, since no one can define fairness with complete assurance when treating children with unequal characteristics.

The Weighted-Pupil Approach

A step toward meeting the challenge of vertical equity and the most common method used to improve the equity of school finance formulas, in allocating funds to local districts, is the use of pupil weightings. These are nothing more than cost differentials injected in the formula to compensate or allow for the additional cost of education of some students because of their innate characteristics, the types of educational programs they pursue, or other pertinent cost factors. Weightings (additional funds) for students who are bilingual, are from minorities, are learning disabled, and require compensatory measures are often used in recognition of their disadvantages and the higher cost of their education. For several years, some states have provided cost differentials for pupils in small and more costly schools—usually in sparsely populated and isolated areas. A few states provide density weighting or correction factors for pupils in large cities where the higher cost of educational and other government services is such that financial relief is required, in the interest of fairness to the pupils being educated as well as to the taxpayers bearing the cost. A number of other weightings are sometimes found in state formulas, such as those for secondary school students over those in elementary grades, although this practice is becoming less justified as the costs of elementary education move closer to those of secondary education. Some states also provide for weightings for teachers who have more academic preparation and experience (and who therefore are higher on the salary schedule), weightings for early education pupils (kindergarten and the first two or three years of elementary school), and weightings for higher-than-average-cost programs, such as vocational education and driver education.

The weighted-pupil approach adds objectivity and equity to the school finance system. Under this concept, all programs suffer or prosper comparably when funds are reduced or increased. This is particularly beneficial to high-cost programs, which are often the first ones to be cut back or deleted when school revenues are reduced.

A number of states and finance authorities have favored the weighted-pupil approach to equity in school finance—that substantially equal amounts of money per pupil be provided, taking into consideration the differences in costs of various school programs. Such an approach has several advantages over the use of the actual number of students attending school, including the following: (1) The costs of education are not the same for all students. (2) Many court decisions considered the unequal cost of education, as reflected in the cost per person being educated. (3) The principle tends to build fairness into a finance formula, for *all* classifications of pupils receive their proportionate share of revenue increases as well as decreases with changes in the school budget. (4) Several states have used such an approach with success. (5) The principle tends to reduce the number of categorical grants that are required in the financing of educational programs. (6) Such an approach usually results in a simplification of the state's school finance formula. The weighted-pupil method is an excellent approach compared to many formulas.

Equity at the School Level

As states continue to struggle with the complexities of bringing financial equity to local districts, some districts are being scrutinized to determine how individual schools within the district compare financially. Though the concern for a breakdown of school-level costs does not seem to be of vital interest to local districts, writers in the field of education finance are finding it a topic for research. Critics of education anticipate that findings in some way may relate to accountability.

The appropriate data are not readily available, and attempting to follow the expenditures at the school level to the classroom and the child level is practically impossible. Even the first step of comparing the states is difficult because of the wide variety of funding patterns. "Researchers found a great deal of variability in the level of detail and type of school data collected by various states, which made it extremely difficult to compare the results of analyses of school-level resources across states."[10] "The key problem is that if the use of the data is limited and does not affect schools, or cannot be easily used by them, it is likely that schools will not take much care in providing data items for the data collection system."[11] Cohen and Goertz have noted that to produce sound and reliable data, the system must be applicable to all levels of education—including the classroom, the school, the district, and the state—and should play a role in the state's accountability system and policy-making environments.[12]

Researchers became involved in studying the expenditures at the local school level through the U.S. Chamber of Commerce Center for Workforce Preparation and a grant from the Lilly Endowment. Eight school districts were selected to participate in a study designed to track the flow of dollars to the building level using a model designed by Cooper and Sorrel and adopted by the accounting firm of Coopers and Lybrand (now Price Waterhouse Coopers).[13] The model was improved through the collaborative efforts of Coopers and Lybrand and the establishment of the K–12 Education Team, which developed the Finance Analysis Model (FAM).[14] The software package "runs on a personal computer [and] traces funds from their sources to the classroom and student."[15]

In 1970, Title I of the Elementary Secondary Education Act required districts to complete a rather detailed report showing that schools within school districts were *comparable.* The formula included expenditures in various maintenance and operation categories that demonstrated that the district was not *supplanting* district funds with federal Title I dollars and were *supplementing* specific programs with the revenues. In 1981, the reporting procedures were lessened because districts claimed that they were time consuming and showed a lack of trust. The present regulations require *assurance* from districts that they have (1) a districtwide salary schedule; (2) a policy to ensure equivalence among schools in teachers, administrators, the auxiliary personnel; and (3) the assurance of equivalence among schools in the provision of curriculum materials and instructional supplies each year. Staff salary differentials for years of employment are not utilized when meeting comparability requirements in the "instructional salaries expenditures per pupil category" that come from state and local funds. Regulations allow a 10 percent expenditure leeway among the schools.[16]

A more comprehensive approach to determining expenditures at the local school level may be the result of the Database Initiative Project funded by the Oregon legislature. The pilot project involved 16 districts that resulted in a statewide policy requiring all districts report data utilizing the redesign of the "charts of accounts" developed in the 16 districts. The Oregon data emerge from a web-based system that stores and reports on all the state's K–12 school districts and education services districts. The pilot project was completed in 1999, with all districts reporting to the legislature in January 2001. The system provides access to school-level data on spending, staffing, school processes, student performance, and demographics.[17]

The concern for equity at the individual school level is valid but there are many factors that can influence the outcome of a study. In some respects, the same elements are part of the site-based versus central-control issue. For example, are large capital expenditures to be considered in a formula when awarding a budget to a site-based school? Likewise, are capital expenditures to be considered when determining the per-pupil expenditures at one school when compared to another within a district? Other areas that may skew results in a study are the following:

1. *Teacher length of service.* An experienced teacher at the top of the salary schedule may be making twice as much as a beginning teacher. A teacher receiving $50,000 per year with 30 students in a room would be an expense of $1,667 per pupil, whereas a class with a beginning teacher making $30,000 per year would be an expense of $1,000 for 30 students. This variable must be considered. The value of a teacher who has many years of experience versus the value of a new teacher with limited experience is a debate outside the purview of this text.

2. *Class size.* Unless every classroom is the same size, comparisons fall short. If the teacher making $50,000 per year has only 25 students, then the per-pupil cost is $2,000. A teacher with the same salary in another school with 35 students would have a per-pupil value of $1,430.

3. *School boundaries.* It is practically impossible to have every grade in each school each year with the same number of students. Without this control, class size can vary markedly. Boundaries might be altered each year to attempt to balance loads, or students might be shifted from one school to another—a decision that would need to be determined by school administrators.

4. *Maintenance costs.* Some buildings are considerably more expensive to maintain than others. One may have high energy costs compared to another. One may be an older building and need more repairs in a year's time. One plant may be utilized longer hours for community activities.

5. *Special program funds.* Programs for the gifted, state special Education programs, and federal revenues are basically categorical in nature. Are these to be considered in comparing school revenues within a district? Some federal programs require that funds be supplemental to local sources and cannot supplant district revenues.

6. *Auxiliary personnel.* Are principals, assistant principals, media specialists, secretaries, counselors, custodians, and other auxiliary personnel serving the same

number of staff and pupils? Are they on the same salary level? These two areas would influence the per-pupil costs at the local school level.

7. *Comparing schools.* Are all grade levels comparable? Should the high school and junior high students receive greater financial support than elementary students?

Table 3.1 compares per-pupil costs in 12 elementary schools in a district that demonstrates the complexities of equalizing expenditures at the local level. Note that Table 3.1 covers only a few of the costs that a comprehensive study should entail. For example, federal programs (such as Title I) and categorical state programs (such as gifted and talented, at-risk students, and other similar programs) are not included in this table. The *significant* difference is that per-pupil expenditures are influenced by two major categories: teacher salaries and enrollment. Schools with experienced staffs with higher salaries for teachers and administrative personnel are going to produce greater per-pupil costs. That being equal ($34,424 as shown in the next to last column of Table 3.1), lower enrollment is the greatest factor influencing differences in per-pupil expenditures. Utility and custodial costs are greatly influenced by the size, age, and utilization of the building, which makes comparisons difficult. In general, with the various influences on the per-pupil expenditures at the local school level, there appears to be little impact on the teaching/learning process.

Most local districts are willing to accept that there are differences in teachers' salaries, energy costs, administrative costs, and maintenance costs. They therefore attempt to make equitable provisions by allotting funds to individual schools in categories such as supplies, materials, media, textbooks, and equipment on a per-pupil basis.

Comparative budget figures are important for administrators to monitor and to develop strategies for savings. However, with all the ramifications associated with determining local-level financing of public schools, unless mandated, it appears there will be limited interest from local districts to become involved.

Equity for Taxpayers

Equity for taxpayers is more difficult to achieve in a finance formula than is commonly believed. States vary in their assessing practices and in the ways they levy taxes on property. A tax levy may be based on a *rate*, a *percent of market value*, *mills* (.001) or *dollars per $100* ($/per $100 assessed valuation [AV]), or *dollars per $1,000* ($/per $1,000 assessed valuation). The tables and text of this book are shown in mills. The reader can easily convert mills by studying the following:

Assessed Value of Property	Tax Levy	Revenue Generated
$100,000	20 mills (.020)	$2,000
$100,000	$2/per $100 AV	$2,000
$100,000	$20/per $1,000 AV	$2,000

TABLE 3.1 A Comparison of Selected Per-Pupil Costs in 12 Elementary Schools (A–L) in a Local School District

Teachers (FTE)[1]	Enrollment	Average Teacher Salary	Teacher Per-Pupil Costs	Administration Costs[2]	Media Costs	Custodial Costs	Utility Costs[3]	Total Per-Pupil Costs	Teachers Salaries Averaged	Teacher Per-Pupil Costs
A–23.0	676	$33,962	$1,156	$130*	$50*	$81	$98	$1,515	$34,424	$1,171
B–19.5	550	33,665	1,194	160	75	98*	97	1,624	34,424	1,220
C–17.5	512	34,846	1,191	180	57	93	105*	1,626	34,424	1,177
D–19.5	560	32,102	1,118	154	72	85	82	1,511	34,424	1,199
E–17.0	519	33,700	1,104	174	74	84	83	1,519	34,424	1,128
F–17.5	530	32,032*	1,058*	175	62	80	85	1,460*	34,424	1,137
G–17.0	505*	35,035	1,179	182*	86*	82	77	1,606	34,424	1,159
H–21.0	618	36,007	1,224	160	64	79	65	1,592	34,424	1,170
I–28.0	790	35,254	1,250	140	85	76	74	1,625	34,424	1,220
J–24.7	745	34,153	1,132	152	83	65*	57*	1,489	34,424	1,141
K–18.5	516	36,792*	1,319*	170	83	82	80	1,734*	34,424	1,234*
L–27.8	856*	35,535	1,154	137	69	76	85	1,521	34,424	1,118*
Average	**615**	**$34,424**	**$1,173**	**$160**	**$72**	**$82**	**$82**	**$1,569**		**$1,173**
*High and low schools Differences between high and low schools		$4,760	$261	$52	$36	$33	$48	$274		$116

Note: The district provides each school $60 per pupil for capital expenses, which include supplies, textbooks, and equipment. The district provides $30 per pupil for library books, supplies, and travel.

[1] FTE = Full-time equivalent

[2] Includes principal, secretarial, and clerical personnel

[3] Includes natural gas, electricity, phone, and waste expenses

Source: Raw data provided by John Bone and Vaughn Hawkes, Provo City Schools, 2001.

Theoretically, taxes should be paid according to the ability of taxpayers to pay, or according to the burden the tax imposes on them. Consider the question of taxpayer equity for the following mythical taxpayers under the conditions of ownership of real property, income, wealth, and taxpaying ability, as indicated in the following examples:

Taxpayer	Annual Income	Total Wealth	Real Property	Ownership (real property)	Tax (mills)	Total Taxes
A	$80,000	$500,000	$100,000	$100,000	20	$2,000
B	50,000	400,000	100,000	80,000	20	2,000
C	25,000	200,000	100,000	60,000	20	2,000
D	20,000	100,000	100,000	40,000	20	2,000
E	16,000	40,000	100,000	20,000	20	2,000

Tax Amount as Percent of Income, Wealth, and Owned Property

Taxpayer	*Property Owned*	*Income*	*Wealth*
A	2.0	2.5	.4
B	2.5	4.0	.5
C	3.3	8.0	1.0
D	5.0	10.0	2.0
E	10.0	12.5	5.0

This example illustrates some of the inequities that may exist in the taxation pattern in a typical school district, where local taxes for public education are determined by a fixed tax rate levied on the assessed value of real property. *Assessed value* ranges from actual market value to a percentage of market value established by a taxing entity. A state may have an assessed value at 20 percent. Thus, a home and property with a market value of $100,000 would have an assessed valuation of $20,000. In the example, all five individuals would pay taxes on $100,000 of real property at the rate of $2 per $100 of assessed valuation. Some would argue that there is complete taxpayer equity, since all five pay 2 percent of the total value of the property being taxed. However, it becomes obvious that equity is lacking when the amount of taxes paid is measured as a percentage of each individual's actual ownership in the property, or of annual income, or of the total wealth of each. Local taxes are usually not equitable on the basis that most states levy property taxes—without regard to the degree or amount of ownership the taxpayer has in the parcel of land being taxed. Berne and Stiefel referred to the fallacy of equating equity with equal tax rates in the following:

> There are multiple formulations of taxpayer equity in school finance.... On the one hand, there are cases where taxpayer equity is equated with an ambiguous formulation such as "equal tax rates," a formulation that is equitable only by definition. On the other hand, less ambiguous formulations such as "equal yield for equal effort" are utilized without reference to other equally plausible ones. A useful distinction that has

> been introduced into the school finance literature is between ex ante and ex post taxpayer equity....
>
> Ex ante taxpayer equity is generally evaluated by examining the characteristics of a school finance plan, while ex post equity involves an assessment of the actual spending patterns that result from school districts' response to a school finance plan.[18]

In the example, only A has complete ownership of the property being taxed; the other four taxpayers owe varying amounts on loans or mortgages that affect their ability to pay taxes. In terms of the value of the property being taxed, without regard to the extent of actual ownership of each, there appears to be fairness in the taxes to be collected from each of the five taxpayers. Considering the degree of ownership of each, the range of the percent of taxes to ownership goes from 2 percent to 10 percent. In terms of annual income, A pays 2.5 percent in property taxes, whereas E pays 12.5 percent; if wealth is used as the base of ability to pay, A is required to pay only 0.4 percent in taxes, whereas E must pay 5 percent.

Unequal Assessments

Other practices in the process of taxing real property add to the unfairness of this method of obtaining local revenue for public schools. One of these is unequal rates of assessment of like parcels of property found in taxing jurisdictions. Such unfairness can be seen in the following example, which uses the same individuals as in the previous one. The only difference is that varying rates of assessment have been used to determine the assessed valuation of the property being taxed.

Taxpayer	Market Value of Property	Assessed Valuation	Tax Rate (in mills)	Taxes Paid	Taxes as a Percent of Real Value
A	$100,000	$100,000	20	$2,000	2.0
B	100,000	80,000	20	1,600	1.6
C	100,000	60,000	20	1,200	1.2
D	100,000	40,000	20	800	0.8
E	100,000	20,000	20	400	0.4

In the above example, A's property was assessed at 100 percent of its real or market value. At the other end of the scale, E's property was assessed at only 20 percent of its real value. Under this arrangement, A paid 2 percent of the total value of the property in taxes, while E paid only 0.4 percent. This example shows extreme differences, but many states, particularly those that use local or politically appointed assessors, are not able to assess all similar parcels of property at the same rate, thus leading to unfairness in local taxation practices.

Assessing or reassessing the current value of property is not an easy task, though most states have strong tax commissions that use objective standards and more sophisticated technology than was previously available to assist in updating records more rapidly. Without current figures, if property values increase because of inflation or other economic factors and the assessments are not brought up to date over a three- to five-year period, the actual percentage of market value decreases, causing inequities. Those who have just purchased property, had property reassessed, or had a newly constructed home put on the tax rolls suffer; those who have owned property for a period of time benefit. For example, a taxpayer whose home was assessed four years ago at $100,000 (at 20 percent of actual market value) and who lives in an area where inflation is 4 percent per year now has a home with a value of over $116,000. Without reassessment, the present assessed valuation is only 17 percent of market value instead of 20.

General Classifications of Taxes

Generally, taxes may be classified as proportional, progressive, or regressive. The *proportional* tax requires that the same percentage of each person's total taxable income, regardless of income size, be paid in taxes. A tax is *progressive* if the percentage of the total taxable income required for taxes increases as the taxable income becomes higher. A *regressive* tax finds higher incomes paying lower percentages of the total taxable incomes for taxes than do lower incomes.

The following example compares three individuals who pay different tax amounts on their income, according to measures of taxation commonly used. The example illustrates proportional, regressive, and progressive taxation of income but does not show all the possibilities of a regressive or progressive tax.

Taxpayer	Annual Income	Taxes Paid	Taxes as a Percent of Income
	Proportional Taxation		
A	$100,000	$5,000	5.0
B	60,000	3,000	5.0
C	20,000	1,000	5.0
	Regressive Taxation		
A	$100,000	$5,000	5.0
B	60,000	3,600	6.0
C	20,000	1,400	7.0
	Progressive Taxation		
A	$100,000	$5,000	5.0
B	60,000	2,400	4.0
C	20,000	600	3.0

Since taxation theory is based on the premise that taxes paid should be related to the burden each taxpayer bears, it is reasonable to argue that taxes should increase proportionately faster than income—assuming that income is the measure of fiscal capacity being used. In the example, it is reasonable to expect A to pay a much higher tax than either B or C, since A's income is much greater. Although A has five times the income, he or she pays more than eight times the taxes paid by C. In terms of the burden caused by such progressivity of taxes, A "suffers" less than C because of the much larger amount of money at his or her disposal after taxes. The problem for tax authorities is not whether A, B, and C should pay the same tax rate; rather, it is how much greater the tax rate of A should be than that of B and C, and how much greater the tax rate of B should be than that of C. They must decide the degree of progressiveness that is most desirable and that produces the greatest equity in the burden borne by taxpayers with high incomes, wealth, or property ownership, whichever form is used to determine fiscal capacity in that taxing district. Here, the important question of values comes into operation. It must be determined what portion of taxes should be paid by each level of income or wealth, without partiality and without undue burden or hardship on any classification of tax-paying ability.

Measures of School District Wealth

Currently there is general agreement that the valuation of real property, regardless of its percent of market value, is not the best possible measure of local fiscal capacity to support public education. Although such a measure has been standard for determining school district wealth in most state school finance programs, its appropriateness is now being questioned by many students of school finance. Some relatively new measures are being considered and tried as possible alternatives (singly or in combination) to property values in determining school district wealth or taxpaying ability. What, then, is the ideal measure of fiscal capacity as far as equity to children and equity to taxpayers are concerned? There is no easy answer to that question.

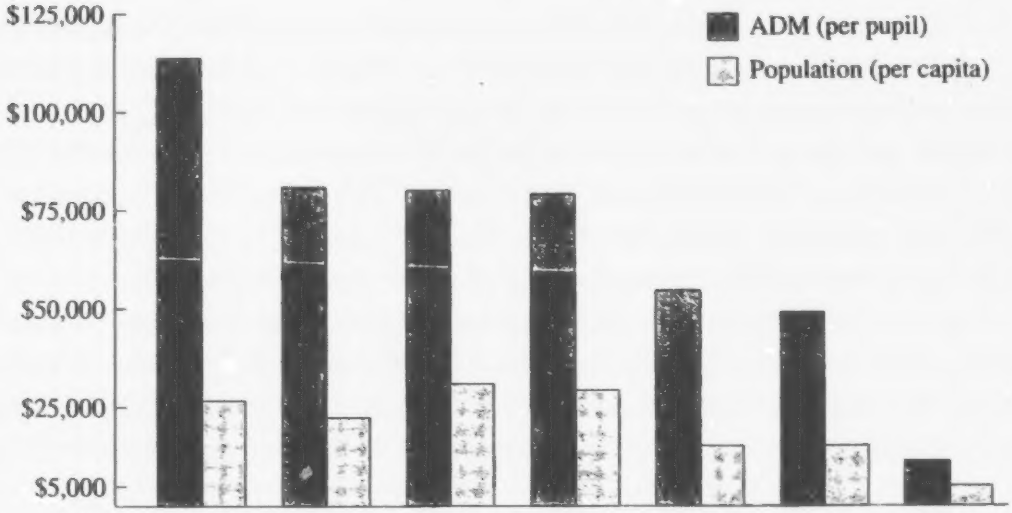
Assessed Valuation per Pupil

One way to address the issue of wealth of an area as it applies to funding local schools is simply to divide the number of students into the total assessed valuation of property. Figure 3.1 compares the wealth in seven districts based on the number of students enrolled. In District 1, for example, there are only 852 students in an area that boasts $96,000,000 in assessed valuation, which converts to $112,676.05 per pupil in average daily membership (ADM). Compare that to District 6, which has an assessed value of $330,000,000 divided by 6,757 pupils. The result is $48,838.24 per average daily membership, or only 43 percent of that of District 1.

The principal objection to using assessed valuation of real property per pupil in determining the comparative wealth of districts is that property is no longer a fair or accurate measure of the wealth of people or of school districts. Too many people have invested their wealth in assets that are not readily available for taxation. In spite of that fact, many states still use that method of determining local fiscal capacity. That this method causes inequality in expenditures per child was noted by McMahon:

> It is the theme of this paper that both the inequality in expenditure per child and tax inequity are aggravated by a common key factor—the narrow definition of wealth based only on property wealth that is still used in most states to measure both local ability-to-pay and local effort.... Wealth in Elizabethan times consisted almost exclusively of land and buildings, but in modern industrialized societies other forms of capital and the incomes they yield have become much more important.[19]

It is argued, too, that since all taxes must be paid out of income—past, present, or future—taxes and measures of wealth should bear some relation to income. Assessed valuation of real property per pupil favors districts with greater educational needs and discriminates against those that have other needs not related to the number of school pupils to be educated. Increases in the book value of property do not increase the taxpaying ability of the owner of property unless it is sold. For example, the farmer whose property increases from $150,000 to $175,000 in one year does not have increased ability to increase products or crops on the land and thus to pay higher taxes, barring other improvements. However, with real property tax laws, the farm land now presumably (and legally) generates more taxes because of the increased value. The



Average Daily Membership	852	204	3,474	800	3,567	6,757	54,932
Population (rounded)	3,600	750	8,800	2,000	14,650	22,000	152,000
Assessed Valuation (in millions)	$96M	$17M	$280M	$63M	$200M	$330M	$664M
District	1	2	3	4	5	6	7

FIGURE 3.1 A Comparison of the Wealth of Seven Districts Determined on a Per-Pupil Basis (average daily membership [ADM]) and a Per-Capita Basis

only practicable way in which that farmer can profit from the increased book value of a farm is to sell it at a higher price than could have been demanded before the increase in its value.

Assessed Valuation per Capita

The assessed valuation of real property per capita indicates the wealth of an area in relation to raising funds for any or all purposes. Although not as common a measurement of fiscal capacity as assessed valuation per pupil, it is used in a number of states, particularly for noneducation purposes. Using the same two districts shown in Figure 3.1 to compare the assessed valuation based on per-capita data, the results are as follows: District 1 has an assessed value of $96,000,000 divided by a population of 3,600, with a net result of $26,667 per capita. District 6 has an assessed valuation of $330,000,000 divided by a population of 22,000 resulting in $15,000 per capita. Be apprised that if taxing districts within a state are not uniform in the percent at which property is assessed, then comparisons are useless.

Statistical Approaches to Equalization

Several states have considered moving to a per-capita measure, and some states have used both in educational formulas. Various statistical approaches have been used to analyze fiscal equalization, including the Pearson coefficient of correlation and the Spearman rank order correlation, both of which can determine the relationship between per-pupil wealth and per-pupil expenditure. Also, the Lorenz curve, Gini coefficient, Verstegen index, Theil index, McCloone index, and Atkinson index have been used to measure the extent of fiscal equalization in some states.

The past several years, publishers of *Education Week* have graded states on their equity in spending for education in their yearly *Quality Counts* edition. The primary measure the report used was the "coefficient of variation," which compares expenditures of all districts within a state but cannot determine the cause for the differences. In the year 2001, a more comprehensive formula was instigated using three variables in its comparison:

1. A *state equalization effort,* which is a sophisticated multivariate approach for measuring the extent a state's finance program provides local districts a certain funding level when applying the same tax rate
2. A *wealth-neutrality score,* which measures the extent to which education funding is related to property wealth
3. The *McLoone index,* which measures the gap between what the bottom half of districts spend per student and what they *would* spend if they spent as much as the district in the middle of the funding pack[20]

The literature is full of examples of complicated plans that attempt to meet the need of being "fair and equitable" to both students and taxpayers. In many approaches these two factors are given various weighting. Limitations that exist in presenting the data are as follows: (1) The availability of the information from the states is not always comparable. (2) The data are three to five years out of date by the time of publication. (3) There is so much discrepancy in equity among districts within states that national comparisons seem insignificant. (4) School budgets are only one of the many factors legislators must consider in allocating money, and many find the various formulas too complicated to incorporate into the system even though some have great merit.

Income Tax

It does not seem reasonable to compare the abilities of districts or states to finance education by comparing their share of potential assets or taxes that are not available for use by the districts or states being compared. Income has therefore not been used as a measure of the fiscal capacity of school districts, because school districts by and large do not have access to local income taxes. Few people, however, deny its place as a determinant, in whole or in part, of ability to pay taxes for the financing of education. In recent years, local governments in a few states have introduced income tax capability to school districts.

Johns summarized a point of view concerning the use of tax measures that are not available for local use:

> If the foundation program equalization model is used, the measure of local taxpaying ability should include only the local tax sources to which the school district has access. This is, if the only local tax revenue available to the district is the property tax, then the measure of local taxpaying ability should be based entirely on the equalized value of taxable property. However, if a local district can levy a local sales tax, or a local income tax, or some other local tax, then that local nonproperty tax source can equitably be included in the measure of local taxpaying ability.[21]

There is no general rule or standard correlation between the income of a person and the property tax obligations. For example, generally high values of large agricultural areas of land often do not translate into high incomes for the owners of that land.

Some states utilize income taxes that are available to local school districts. They use taxable income in addition to assessed valuations of property in determining their state allocations to local districts. A few states use income figures along with property values in their school finance formulas. A number of other states are moving in the direction of utilizing income as an addition to their other measures of fiscal capacity.

The importance of utilizing income as a measure of school district wealth for the purpose of allocating state funds to local school districts include:

- The relationship between fiscal capacity and income is apparent.
- Income is an excellent variable for determining fiscal capacity.
- All taxes are paid out of income.

Wealth Tax

Fairness of taxation is increased when more kinds of wealth are included. The use of a wealth tax as an alternative revenue source to the property tax has often been considered by tax authorities who recognize the unfairness and limitations of the traditional property tax in determining the fiscal capacity of school districts.

A wealth tax, as the term implies, is based on the net worth of an individual or a household. By definition, this means all assets minus all liabilities. In contrast, a property tax is a tax on the gross value of a particular kind of property, regardless of the equity the taxpayer has in the object being taxed or in other forms of wealth he or she owns.

A wealth tax would eliminate discrimination against the person who pays full property taxes but who has only limited or incomplete ownership in the property being taxed. It measures *total* ability to pay. It has the advantage over an income tax, in that the latter taxes only annual increases in ability to pay, without regard to accumulated ability. For example, under an income tax, taxpayers A and B may have the same income per year, but A may derive income from interest on property owned, whereas B may get income from personal services without the added property values that A has. In the event of total loss of income, A has assets in the form of property to rely on; B has nothing to replace loss of income. Thus, even though their incomes are identical, their ability to pay taxes is not the same.

There are certain disadvantages that would affect the use of a wealth tax. Some of the most obvious are the following: (1) It is administratively difficult to determine the total wealth of an individual or household; it is almost impossible for taxing authorities to learn of all the individual pieces and the value of all the items of wealth that are owned by an individual or a household, particularly if the people involved are uncooperative. (2) There is the question of privacy and people's dislike of having government representatives aware of their financial affairs—even among honest people. (3) The cost, timing, and actual process of assessment would undoubtedly create major problems. Although experience with a wealth tax is very limited in the United States, certain European countries have applied such a tax with reasonable success.

Historical Influences on Equity

In the early history of public education, the states seemed content to accept responsibility for education but were reluctant to assume major responsibility for financing it. Local school districts—usually of small size and often with limited resources—bore the responsibility of financing education for many years without state assistance. It is true that the states generally provided ways of legalizing local school property taxes, but grants, equalization funds, and a general state-local "partnership" arrangement received little attention until the 1930s and 1940s.

This system of operating an educational program was generally satisfactory and workable in most school districts during the time when there was extreme local pride in the public schools and limited competition for the property tax dollar. This was true, perhaps, because of satisfaction with limited curricula, low costs, and little state control or interference. But its obvious weakness soon rose to the surface, and demands for change and for some form of state financial support began to be heard in legislative halls. Even though citizens continued to hold fast to their historic conviction that public schools should function as locally controlled institutions, they began to advocate the idea of some form of state support for financing education in order to equalize educational opportunity and equalize the burden of paying for continuously expanding school programs.

Much of the early inequality and inequity in financing education was caused by the fact that school districts varied greatly in size and in wealth, from large city districts to ones that operated only one- or two-room schools. The taxable property base per person to be educated varied tremendously from one district to another, resulting in similarly large variations in property tax levies.

Reorganization of School Districts

Reduction of the number of school districts in a state gradually reduced the range of variation in ability of its districts to finance education. But school district reorganization and the elimination of many small and inefficient districts was a very slow process until the 1940s and 1950s. Such reorganization was hampered by three major conditions: (1) Permissive reorganization laws required the exercise of local initiative and voter approval—a requirement that by its nature was unpopular and resulted in few successes. (2) Voters in low-levy school districts bitterly resisted merging with districts that required higher millages for school operation. (3) Reorganization issues were usually settled on the basis of the emotional responses of citizens to their local school and community.

Mandatory legislation reorganizing school districts has always been a possibility for quick action in such matters, but its implementation has been infrequent. With a few exceptions, such as Utah in 1915, West Virginia in 1933, and Nevada in 1956, most state legislatures appeared to be content to wait until the people concerned made the first move under provisions of permissive legislation to reorganize schools.

The semipermissive legislation that was adopted in many states during the 1940s and 1950s did much to reduce the number of local school districts, but the process has not yet been completed. Some states still operate with large numbers of districts; these need to be combined with others in order to provide greater equality of educational opportunity.

Local District Funding

Full local district funding was the first of all school finance plans. Over the years, it has proven to be the least desirable and the least effective in producing equality of educational opportunity among the districts within a state. Its operation as the sole producer of school revenue terminated near the turn of the twentieth century, with the beginning of state grants and other allocations to local districts. Its almost exclusive use in the years preceding the use of flat grants and foundation programs preceded any modern-day philosophy of equal educational opportunity or equal sharing of the burden of taxation. The place of a child's birth determined to a large degree the quality and the quantity of education he or she received. A person's place of residence and the extent to which he or she invested in real property were major factors in the calculation of his or her burden in financing education.

As the costs of education increased and as competition for the revenues generated by a local property tax became greater, it was logical and necessary for local districts to obtain some financial assistance from state government. This support emerged principally as flat grants and categorical aids until the theory of foundation programs and equalization was developed and implemented.

Although state financial support for education is largely a twentieth-century development, Mort reported that about one-fourth of public school revenue in 1890 came from state sources. He did not differentiate between the funds derived from federal land grants and those obtained from strictly state sources.

Flat Grants

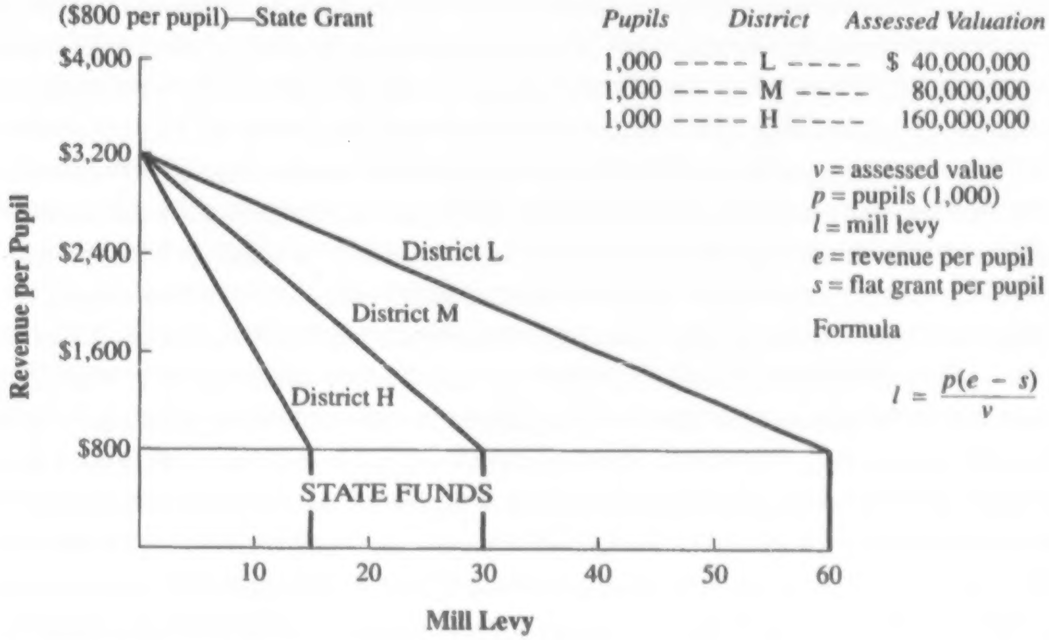
In the early attempts of states to assist local districts in financing their schools, flat grants were used extensively. These grants were usually funds per pupil, funds per teacher, or percentage grants. They were provided as a form of relief to local taxpayers, with no real intent of providing equalization. Their effect on local districts was usually nonequalizing, except with the use of percentage grants, which do not change the ratio of tax effort among districts either toward or away from equalization of tax effort. Model 3.1 shows the effect of a flat grant of $800 per pupil on three districts based on the following data:

District	State Funds per Pupil	Local Funds per Pupil	Total Funds per Pupil	Mills Tax Levy
L	$800	$2,400	$3,200	60
M	800	2,400	3,200	30
H	800	2,400	3,200	15

In Model 3.1, a flat grant of $800 per pupil leaves each district with the need to provide the additional $2,400 by a local property tax levy varying from 60 mills in District L to 15 mills in District H. Since the state is providing one-fourth of the revenue of each district, the grant has the same effect as any percentage grant—the ratio of highest tax levy to lowest tax levy remains the same as without the grant (in this example 4:1), and no equalization is effected. If examples are used with varying numbers of weighted pupil (or other base on which the grant is made), the effect of the grant is usually nonequalizing.

Even though flat grants do not usually accomplish the purpose for which they are intended, they obviously reduce the burden on taxpayers in all districts and are therefore a first step in replacing the outmoded system of complete local financing. For example, in the model, District L has had its tax burden lessened by 20 mills, District M has had its tax burden lessened by 10 mills, and District H has been able to reduce its tax by 5 mills. In terms of percentage decrease, each has reduced its required mill levy by 25 percent.

Even though flat grants are generally not equalizing to local school districts, they are still being used in some state school finance formulas, usually in combination with



Pupils	*District*	*Assessed Valuation*
1,000	L	$ 40,000,000
1,000	M	80,000,000
1,000	H	160,000,000

v = assessed value
p = pupils (1,000)
l = mill levy
e = revenue per pupil
s = flat grant per pupil

Formula

$$l = \frac{p(e - s)}{v}$$

MODEL 3.1 State Flat Grants

other equalizing state allocations. Tradition continues to play an important role in financing education, even though there are far better methods of allocating state funds to local districts.

Flat grants were first provided by states to local districts on an incidental and haphazard basis. Gradually, however, the states developed theories and guidelines for such appropriations.

Equalizing Grants

Most states now use an equalizing grant in allocating some or all of their state money to local districts. Such grants are made in terms of tax-raising ability of the local districts. Some states use combinations of grants—equalizing, percentage, flat, and variations of these—but the trend is toward allotting a higher percentage of all state funds on an equalization basis.

Although the equalizing-grant method of allocating state funds has been used for a long time in some states, it is relatively new in others. Most of the state funds allotted to local districts take the form of nonrestrictive general-purpose grants. Some standards or guidelines are usually provided for the districts receiving these grants, but it is intended that their use be determined by the local school boards, with little or no restriction by the state. States, for the most part, put the onus on the receiving districts for proper and wise use of such funds.

The states do not want to absorb all of the yearly school cost increases at the state level. Consequently, they often devise ways short of mandated levies to keep local effort as high as possible, in order to keep state increases within bounds. Traditionally, this has been done by "reward for additional tax effort" or by "reward for performance." Cubberley's finance proposals included a kind of reward for effort; not only was this nonequalizing but it also actually increased the degree of inequality in many instances. His plan was to provide more funds for those districts with more teachers and for those with schools with enriched or extended school services. Since the more wealthy districts already had more of both, the incentive plan was a benefit to them but of little help to the poorer districts. As a result, the states have used various kinds of programs to aid districts that make the tax effort to go beyond the foundation program—supplementary or leeway programs that usually have some degree of equalization built into them. Most state school finance plans are not set up in pristine simplicity; they often combine several kinds of state aid in varying mixes.

Programs beyond the foundation must be supported solely by the local district. Utah requires the local overage (called *recapture*) of a required foundation program levy—if a district has such—to revert to the Uniform School Fund to be used to help finance the program in other districts.

The Equalization Principle

The work of Strayer and Haig in introducing the foundation program principle of financing education was a major breakthrough in school finance theory. It now seems unfortunate that such a simple and defensible principle should not have been discovered and applied much earlier in school finance history. Its relatively late appearance in the late 1920s was followed by an even slower rate of adoption by the states. For years, knowledgeable people had observed and deplored the disparities, the inequities, and the injustices that existed in the United States in terms of unequal wealth, unequal incomes, and unequal opportunities. Similar inequities in educational opportunities and in sharing the costs of education seem to have been accepted with the same feelings of frustration and inability to change the existing situation.

The birth of the foundation program concept provided a means of removing some of the disparities in school revenues and expenditures. But changes come slowly, and some states were reluctant to apply the principle to their school finance program to any great degree. The principle is not perfect and has many limitations, but its application would have eliminated or at least reduced much of the unfairness of revenue distribution that still exists in many states. Improved finance formulas involving extensions and improvements of Strayer-Haig-Mort foundation programs have been visible and available, yet their utilization has been sporadic or nonexistent. Adoption of the foundation concept may be a first step to the even more effective program of power or open-end equalization now being advocated in the field of school finance theory.

Improving State Equalization Practices

The theory of the foundation program to achieve equalization of educational opportunity is relatively simple, but its practical application is often complex, usually unnecessarily so. The formula that each state uses involves three essential conditions:

1. Calculation of the "monetary need" of each school district necessary to obtain a state-guaranteed minimum program, measured objectively in terms of the number of weighted pupils (and other measures of need)—to be financed at the level of support that the state will guarantee.
2. Determination of the amount of local school revenue that can be expected with a state-established uniform tax rate levied against the equalized assessed valuation of all taxable property within the district.
3. Determination of the state allocation by finding the difference between the district's established need and the revenue obtainable from its required local tax effort.

Complications arise in applying the theory in practice, for a number of reasons:

1. Not all pupils require the same number of dollars of expenditure, even under a commitment to the principle of equality of opportunity. Children who have special needs are more expensive to educate than others, and children who attend very small schools and those who attend very large ones are more expensive than those in medium-sized ones.
2. Wide variations exist in the assessment practices in the districts of a state, even when all are presumed to be assessed at uniform rates.
3. The quality of the teaching staffs may vary considerably, as determined by educational preparation and experience, thus varying the costs of instruction among the districts.
4. The dollars provided do not purchase the same amount or quality of goods and services in all districts, thus favoring some districts and penalizing others.
5. Some states operate many different kinds of school districts with different taxing responsibilities and restrictions.

The net result of these and other differences among districts is that finance formulas usually include provisions to try to offset inequalities. Weightings for school size differentials, such as sparsity and density factors, special consideration for exceptional children, allowances for transportation costs, and provision for additional funds for better-qualified teachers, are among the most common adjustments in formulas. Such adjustments add to their complexity but also increase their validity and effectiveness.

Foundation Program Variations

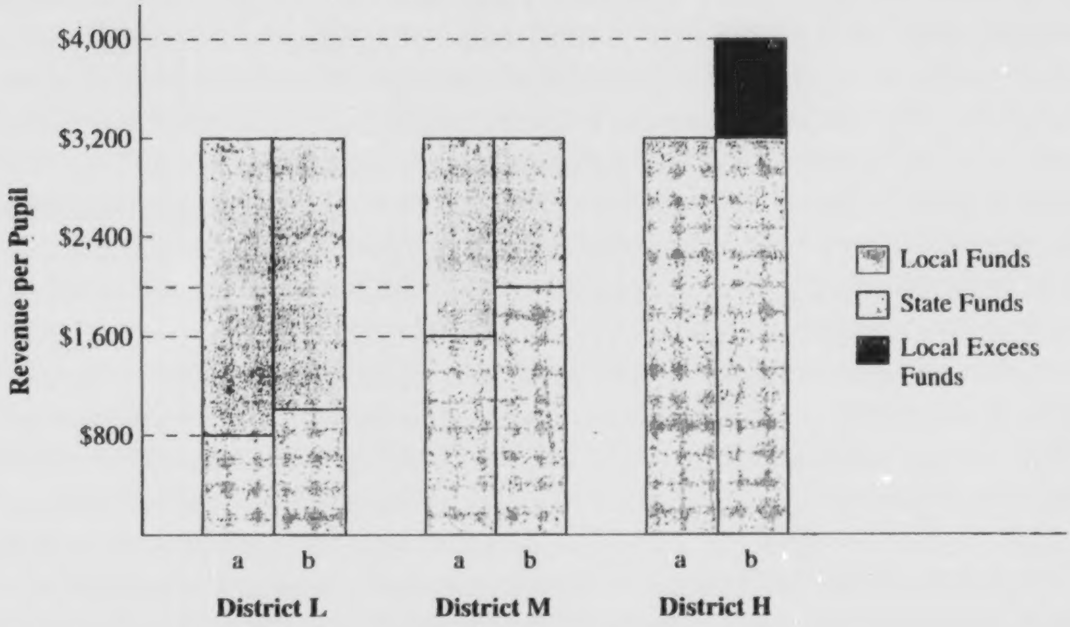
The foundation program concept can be applied with a number of variations: with or without local options to go above the state guaranteed minimum program, with or without state matching of local optional revenues, or in combination with flat grants and/or categorical allocations. Some of these possibilities are illustrated in the following simplified models.

Model 3.2 consists of two parts. The vertical columns marked *a* for each of the three districts illustrate a foundation program constructed with the mill levy necessary to produce the state program. In the richest district, the per-pupil revenues are reached

a - - - - Local levy of 20 mills
b - - - - Local levy of 25 mills (with surplus in wealthy district)

v = assessed value of taxable property
l = mandated tax levy
e = revenue per weighted-pupil unit
p = number of weighted-pupil units
s = state allocation per weighted pupil

$$s = \frac{ep - vl}{p}$$



MODEL 3.2 **Foundation Program (without local options)**

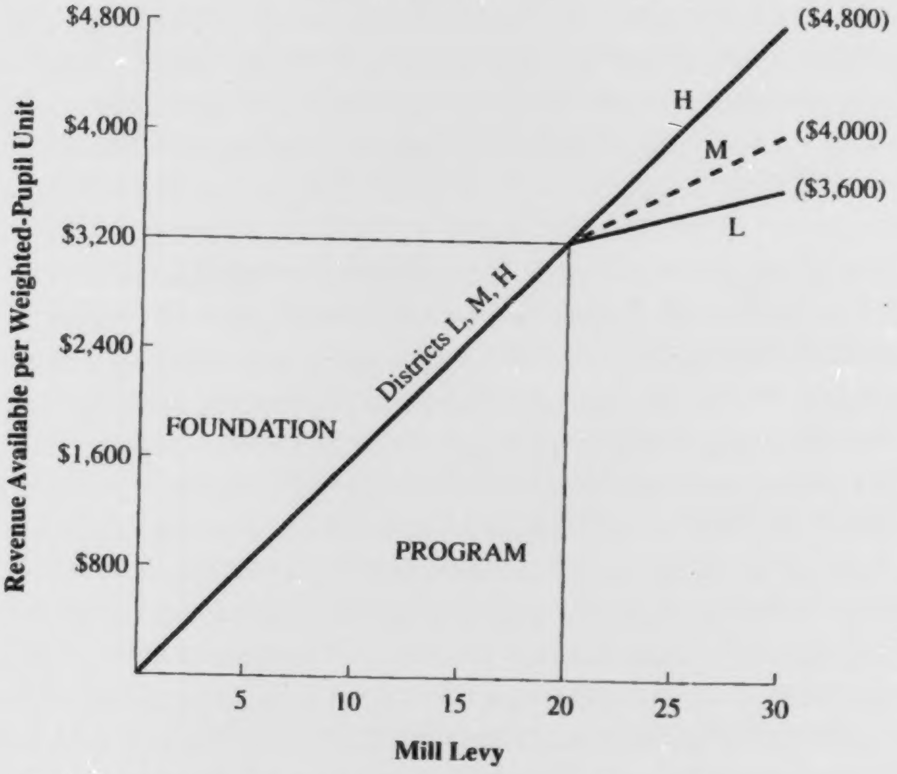
with no surplus being generated. The three columns marked *b* illustrate the same program with a required levy high enough to give the wealthiest district a surplus, which may or may not be recaptured by the state, depending on the philosophy of the particular state using the program.

This model is a mandatory foundation program comparing the three districts L, M, and H, which have assessed valuations of $40,000,000, $80,000,000, and $160,000,000, respectively; each district has 1,000 weighted pupil units. In the part *a* example, a required mill levy of 20 mills is applied, with no surplus above the foundation program. There is no provision in this model for board or voted options to go above the mandated program. Hence, it is an unequalized minimum as well as maximum program. It illustrates the application of a simple form of foundation program where equality of educational opportunity, as measured by equal dollars of total revenue per weighted pupil, is achieved: at the same time, local property taxpayers share the burden equitably. In its simplest form (without local capability of supplementing the program) it makes "perfect" equalization of a minimum-maximum program; it provides no opportunity for districts to enrich the state-mandated program. It is usually unsatisfactory unless accompanied by provisions for local extension of the program beyond the foundation level, unless it is equalized at a high enough level to provide adequate funds for all districts.

Columns *b* illustrate the use of the foundation program concept when the required local levy produces more revenue in some districts than the state-guaranteed level per weighted-pupil unit (WPU). The surplus may be left with the local district or it can be used (recaptured) by the state to help equalize the costs in other districts. The argument in favor of its being kept where it is produced is that since it is coming from a so-called wealthy district, the taxpayers there are already providing proportionately higher percentages than in poorer districts to the state coffers through sales taxes, income taxes, and the like. On the other side of the argument is the observation that

Foundation Program—$3,200/WPU—20-mill levy
Board Leeway—10 mills—no state support

District	*Assessed Valuation*	*Weighted-Pupil Units*
L	$ 40,000,000	1,000
M	80,000,000	1,000
H	160,000,000	1,000



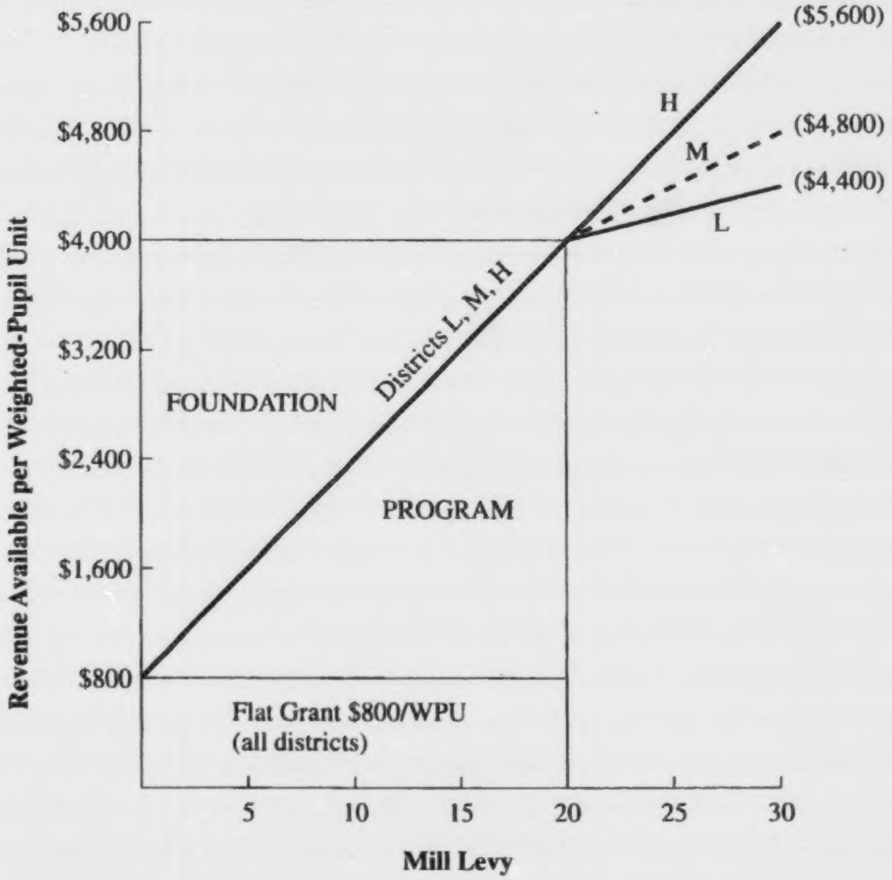
MODEL 3.3 Foundation Program with Unmatched Board Leeway

even with state recapture, the local district taxpayers are paying the same property tax rate as is being paid by those in all other districts. Columns *b* in Model 3.2 illustrate a foundation program (without state recapture of surplus local funds raised by a 25-mill local levy). Columns *b* with recapture become the same as columns *a,* except that equalization has been effected in all three districts—but with a 5-mill higher local levy being required.

Model 3.3 illustrates a foundation program with board leeway options not supported with state funds. It assumes the same three districts as before. This model shows that the equalizing effect of a foundation program guaranteeing $3,200 per

Flat Grant—$800/WPU
Foundation—$3,200/WPU—20-mill levy
Leeway—10-mill levy—no state support

District	*Assessed Valuation*	*Weighted-Pupil Units*
L	$ 40,000,000	1,000
M	80,000,000	1,000
H	160,000,000	1,000



MODEL 3.4 Combination Flat Grant, Foundation Program, and Unmatched Board Leeway

weighted-pupil unit with a required levy of 20 mills is eroded with each district using a 10-mill (unsupported) tax levy beyond the foundation program. Such a plan reduces the inequalities shown in the earlier models but falls far short of complete equalization. The lower the base of the foundation program and the greater the leeway above it, the greater are the inequalities that result from the use of this model. Ten additional mills produce $400 per WPU for district L, $800 for district M, and $1,600 for district H.

All the school finance models used in this text are shown in their simplest form. It should be noted that differences in the numbers of weighted-pupil units, differences in local levies to be made, differences in the amount of state funds to be provided, and the possibility of numerous combinations of these programs would increase the inequities shown in these models.

Model 3.4 shows the effect of flat grant and foundation programs, with or without school board and voted options. Several states have used different methods and procedures to go above the state-guaranteed program. The kind and number of combinations of such programs are almost unlimited. Various states have used different combinations to suit their own school finance philosophy.

It should be emphasized that whatever system or process a state may use in financing education, the state should support the program to a greater extent in poor districts than in wealthy ones. When a state provides unsupported board options and taxpayer-voted options that go above the state program, such a process simply widens the gap between the wealthy and poor districts and thus produces a nonequalizing effect in the finance program.

The Impact of Average Daily Attendance on Equity

Whether to use average daily attendance (ADA) or average daily membership (ADM) as an administrative student accounting process will continue to be a debatable issue. There is much evidence supporting the fact that attendance with a time-on-task relationship has a great influence on learning. However, the way states count their students can have an influence on financial equity. When a fixed dollar amount is established in a foundation program, some inequities can arise when a state uses ADA figures over ADM. Formulas based on average daily attendance will usually penalize larger urban districts where attendance tends to be lower than in small more rural districts. In the following example, both Districts A and B have 1,500 students enrolled. District A has an average daily attendance of 1,425, or 95 percent; District B has an average of only 1,275, or 85 percent. For District A, the WPU shrinks from $3,200 to $3,040, whereas in District B, it erodes to $2,720.

District	ADM	ADA	WPU Value	Actual WPU
A	1,500	1,425 (95%)	$3,200	$3,040
B	1,500	1,275 (85%)	$3,200	$2,720

Several years ago, Utah shifted from ADA to ADM in two steps without a "hold harmless" stipulation. Districts with high attendance figures suffered, whereas those with low attendance were rewarded.

Confusion in Current School Finance Practices

Court cases have not solved the problem of providing equal financial opportunity for all children within a state; they have simply opened the door for debate and reform. Certainly they have raised more questions than they have answered. What direction should states now take in financing their educational programs in the light of limitations on property tax as a source of locally provided revenue for schools? How can other taxes be used to replace or reduce property taxes, with control of education still kept at the local level? To what extent do court decisions mandate standardization and uniformity of school programs? What are the ramifications of the reshaping of the federal income tax law for local and state funding?

As a result of this confusion in school finance, some states and school districts continue to use educational finance practices that have been determined to be ineffective and obsolete:

1. Some states still require local school districts to rely almost completely on a local property tax as the source of funds for education in spite of the unfairness and regressiveness of such a means.
2. In spite of sound theories of equalization that have evolved during the last half-century from the thinking of numerous school finance specialists such as Strayer, Haig, Updegraff, and Mort, some of the 50 states have not yet incorporated these principles in their school finance programs.
3. Although it can be documented that education is really an investment in people, many legislative bodies give the impression that the cost of education threatens the economic capability of those who provide its funds.
4. It has been known for a long time that small schools are more expensive and less productive educationally than larger ones, but local pride and resistance to change are still effective in thwarting those who favor large and viable school organization patterns.
5. Many different groups of people are denied equity by the failure of state and local governments to provide sufficient funds to educate them. Students who are disabled and/or gifted, aspire to vocational training, or are not of the dominant culture may not always have a reasonable chance to reach their potential as citizens.
6. Even though pride in "free education" seems to be a sincere expression on the part of nearly all citizens, in practice such a designation is almost a mockery in many places. Numerous fees and incidental charges in many schools discriminate against children of low-income families and relegate them to second-class citizenship.

Summary

Equity in school finance refers to fairness in the expenditures per pupil and fairness in the treatment of taxpayers. In this context, equity and equality, although often used synonymously, do not mean the same. Fairness is more important in financing education than evenness or sameness, because students have wide differences in their abilities, needs, and educational desires. The school finance reforms emphasize equity of educational input; it is impossible to measure accurately equity of output.

Even though real property taxes are usually paid at the same tax rate in a given district, they are not always equitable, because of different rates of assessment as compared to market values, different degrees of ownership of the property being taxed, and differences in the income or the wealth of taxpayers—even though their property taxes may be relatively similar. Income and wealth have some advantages over property assessments in formulas for determining the fiscal capacity of school districts.

It is much easier to treat equals equally—the horizontal component of equity—than to treat unequals unequally—the vertical component of equity. No one has determined exactly how unequally those with unequal needs or abilities should be treated. Since the cost of education varies with the abilities and the needs of students, the use of weighting factors adds some measure of fairness to finance formulas. Although there are numerous weighting factors in use, those for disadvantaged children, small classes, vocational, and other high-cost programs, and those for the early years of elementary education are the most widespread. The use of assessed valuation of property per pupil is more equitable than assessed valuation of property per capita for the operation of school finance programs. Wealth and income are gaining some support as bases for determining fiscal capacity.

The equity issue at the local school level has become a topic for researchers in the field of education finance. Critics are anticipating that it in some way may relate to accountability. The complexities in comparing one state to another is difficult because data of this nature are not required of local districts. It is important for administrators to monitor the budget figures. However, unless mandated, there appears to be limited interest in collecting and providing local-level finance information.

Taxes are classified into three general types: proportional, (the same percentage of income spent for taxes for all levels of income), progressive (higher percent of income for taxes for higher levels of income), and regressive (lower percent of income for taxes for higher incomes). It is generally agreed that reasonable progressive taxes are the most equitable and regressive taxes the least equitable.

In the early history of the United States, many of the individual states were slow in accepting responsibility for financing their public schools. Consequently, full local district funding was the first of all school finance systems. Because of the extreme differences in the size and wealth of local districts, local financing proved to be a very unfair and discriminatory method of financing education.

Early efforts of the states to aid local districts in financing education came principally in the form of flat grants. These, too, proved to be nonequalizing. Gradually, however, the states moved to equalizing grants and to the equalization principle in supporting local districts. The Strayer-Haig and Updegraff and Mort equalization principles of distributing state funds to local districts began to be used in the second quarter of the twentieth century.

School district reorganization began in earnest in the late 1940s. With great reductions in the number of local school districts, the range in size and comparative wealth decreased, and school finance formulas became simpler and fairer to students and to taxpayers alike.

Some states and school districts continue to use obsolete and unfair educational finance practices in spite of the relationship between equal protection and equalization in school finance. Such practices are being challenged in state courts.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *equity, weighted-pupil, assessed value, market value, proportional tax, regressive tax, progressive tax, flat grants, foundation program, ADA, ADM, mill, mill levy, wealth tax, minimum program, equalization.*
2. Compare various definitions found in the literature of *equality* and *equity* in school finance programs or formulas.
3. Discuss the problems and ramifications involved in improving school finance formulas in order to provide greater equity for taxpayers.
4. According to the literature, what are the apparent trends in the measurement of school district wealth? What are the problems involved in applying these measures to school finance formulas?
5. Some states express their tax rates in mills; others express them in dollars per hundred dollars of assessed valuation. For example, in some states, the tax rate for school purposes might be expressed as 50.5 mills; in others, it would be expressed as $5.05 per $100 of assessed valuation (AV). It could also be expressed as $50.50 per $1,000 of assessed valuation. Express the following as indicated:

   a. 156.25 mills as dollars
   b. $0.375 as mills
   c. $17.51 as mills
   d. 57.3 mills as dollars per $100 (AV)
   e. $3.60 per $150 (AV) as mills
   f. .78 mills as dollars
   g. .78 mills as dollars per $100 (AV)
   h. .78 mills as dollars per $1,000 (AV)
   i. 2,341.5 mills as dollars
   j. $5,491.54 as mills

Flat Grants

6. With the help of the following information, answer the questions concerning the effect of flat grants on the two districts.

District	Assessed Valuation	Paid by State	Budget Needs	Mill Levy	Number of Students
A	$6,000,000	nil	$240,000	_____(1)	360
B	5,000,000	nil	100,000	_____(2)	150

a. Would a grant of $24,000 by the state to each district be equalizing in its effect on the two districts? Yes____ No____ (3)

b. Would a state grant of $100 per student be equalizing in its effect on the two districts? Yes____ No____ (4)

District	Assessed Valuation	Paid by State	Budget Needs	Mill Levy	Number of Teachers
C	$ 8,000,000	nil	$400,000	_____(5)	50
D	10,000,000	nil	300,000	_____(6)	40

c. Would a grant of $40,000 be equalizing in its effect on the two districts? Yes ____ No____ (7)

d. Would a state grant of $500 per teacher be equalizing in its effect on the two districts? Yes____ No____ (8)

Foundation Programs

7. Determine the state funds that would be paid in the following equalization program: District A has an assessed valuation of $10,580,000. Its budget needs for this part of the program are $495,000. The required local levy is $1.56 per $100 of assessed valuation.

   a. Under an equalized program, the state would pay the district $_________

   b. What are the three parts of any state foundation program?

8. Assuming a certain state has a fixed dollar amount of money to allocate to the following three districts on a proportionate share basis, which district would probably prefer to have the state use each of the three methods of allocation?

	District A	District B	District C
Pupils on census list	2,000	2,500	3,000
Pupils in ADM	1,860	2,140	2,000
Pupils in ADA	1,548	2,052	1,820

   a. (Census)____ **b.** (ADM)____ **c.** (ADA)____

   d. What is the advantage of using ADA in allocating state money to local school districts?

   e. What is the advantage of using ADM in allocating state money to local school districts?

   f. What would be the advantage of using aggregate days attendance in allocating state money to local school districts?

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER

4

Patterns for Developing School Finance Systems

> *One of the fundamental decisions a state needs to make as it sets about funding a system of public schools is whether or not to define an entitlement for students. Most states have decided in the affirmative, but there is great variation in how these entitlements are conceived and implemented.*
>
> —David H. Monk, 2001

School finance scholars are presenting evidence that state school finance programs do not provide the equal educational opportunity they were devised to provide. The foundation program concept had fallen short of the objectives its proponents had set for it. Equalization programs with local options that provided little or no state support eroded the effect of the foundation program concept as a guarantor of equal protection of students in different districts. As implemented, it left the wealthy districts with more total funds per student than poor ones, with consequent disparities in curricular offerings as well as in tax burdens.

Concern for Equal Rights

Since the founding of the United States, factors have worked to extend and protect the rights of citizens. With the ratification of the U.S. Constitution, the Bill of Rights was adopted to provide greater and more specific protection of individuals. Since that time, society itself has been making slow but consistent progress in improving and equalizing the rights of individual citizens in numerous ways. As early as 1874, in the *Kalamazoo* case,[1] high school students were assured of an education on the same taxing basis as elementary students. In the *Brown* case of 1954,[2] African American citizens were guaranteed equal educational opportunities. By the mid-1960s, the courts had eliminated or reduced geographic discrimination in legislative bodies by deciding that "the value of one's vote could not be diluted or debased when compared with the votes of others in the same circumstances," and had determined that lack of financial ability could not be used to deny criminals equal protection of the law.

Some important historical events in the United States increased the need for, and helped accelerate implementation of, plans for greater equality of educational opportunity and equal protection for school-age citizens. Industrialization increased the discrepancies in the financial ability of school districts and states to finance education.

The Depression brought defaults in the payment of property taxes, greatly reduced incomes, and other economic distresses, which emphasized the need for increased state support of floundering school systems. The educational deficiencies of potential servicemen rejected during World Wars I and II brought into focus the extremes in unequal education provided in school districts in various sections of the country. In 1957, *Sputnik* pointed up the need to improve public school educational programs if the United States intended to remain competitive in exploring outer space. The "A Nation at Risk" report in 1983 warned that U.S. preeminence in commerce, industry, science, and technological innovation was being challenged worldwide, and knowledge, learning, information, and skilled intelligence were the new raw materials of international commerce, with the United States falling behind other nations. In 1997, "A Call to Action," which was a follow-up of GOALS 2000, emphasized a 10-point program for educational reform. These are only a few indicators of the need to equalize and improve educational opportunities for school-age youths throughout the nation.

Although the *Serrano* case appeared to be an abrupt reversal of popular public and court opinion, it was in reality an extension of the trend toward greater protection of the rights of citizens in many aspects of the constitutional guarantee of equal protection for all citizens. Equalization was not, as some have thought, a completely novel idea, without precedent. Even in the early twentieth century, Cubberley stated, "All the children of the state are equally important and are entitled to the same advantage."[3] In 1983, Berne and Stiefel concluded, "From 1940 to 1970 only the decade of the 1960s failed to show improvement in horizontal equity in an overwhelming number of states. This is a noteworthy result in the light of the school finance reforms that were concentrated in the next decade of the 1970s."[4]

The early 1970s saw great activity in the courts, in school board meetings, and in legislative halls. One of the most noticeable results was a reemphasis on certain tenets of school finance philosophy and theory that had been sponsored by such theorists as Updegraff and Morrison. Some of their ideas of how to provide equality of educational opportunity—which had not been popular when introduced, nor given an opportunity for practical development—began to be recognized as potentially valuable. Morrison's ideas concerning greater state control and virtual elimination of local districts now seemed logical to many who favored full state funding of public education. Updegraff's concept of reward for effort now reappeared under the name *power* (or *open-end*) *equalization.* Rather suddenly, these half-century-old ideas, hidden away in textbooks, seemed to offer alternative solutions to the problems in school finance.

The courts have varied interpretations of what conditions are acceptable in school finance formula–depending on the divergent tenants of the several states' constitution. The long and cherished tradition of local control of education has been altered. Flat grants, percentage grants, foundation programs with or without local options, power equalization, full state funding, or any combination of these methods are being used throughout the 50 states.

Full State Funding

The idea of full state funding of education certainly could not be considered radical or unacceptable to the people in those states that were providing more than half of their public school revenues from state sources. Earmarked state property taxes, sales taxes, income taxes, and others were common and could be expanded if full state funding were to be adopted. However, the difficulty of accepting the idea of full state funding in those states that provide much less than half the public school revenues presents a much greater problem. Many voters and decision makers look askance at increased state support because of the possibility of increased state control over local schools.

At various times in United States history, exponents of complete state financing of education have put forth such proposals, with little popular support. They point out that more than half a century of state effort to equalize educational opportunity and school tax burdens by state-local partnership finance formulas has not achieved this goal. They reason that all states could attain this objective if they collected and controlled the disposition of all school funds.

Three different degrees of state participation are possible for financing and operating public schools:

1. *State operation* of public schools, with substantial reductions in the administrative and operational responsibilities of local school boards
2. Complete *state support,* with elimination of locally raised funds but with state basic programs increased to adequate levels
3. The *foundation program* approach, with state funds added to local tax funds to produce a state-guaranteed level of school support.

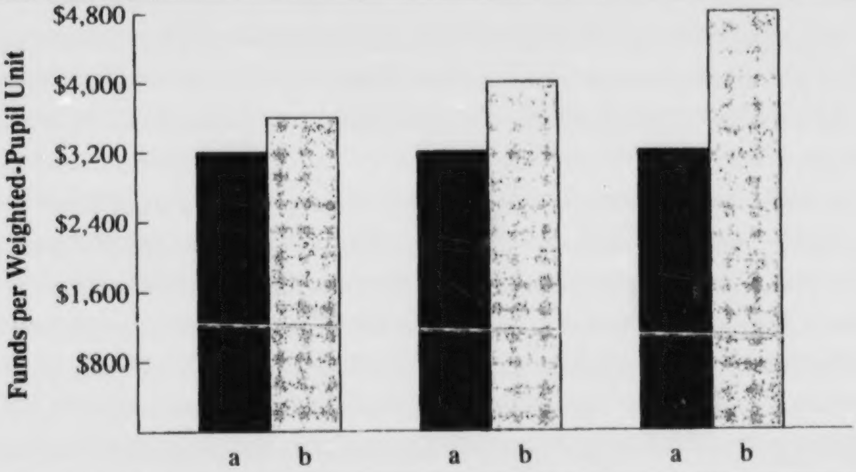
Model 4.1 is an illustration of two plans for full state funding of education, with minor adjustments that could be used. Columns *a* illustrate full state funding without allowance for local options. All districts would receive the same number of dollars per weighted-pupil unit. Its disadvantage is that the state legislature would determine by itself the maximum number of dollars per pupil to be provided. Local needs, local desires, and local initiative would be ignored under this type of financing.

Columns *b* provide almost full state funding, with limited local options to go beyond the state-sponsored program. Although this plan purports to provide for local preferences, it is nonequalizing and favors wealthier districts, as do all finance plans where local effort is not state supported.

The plan, shown as columns *a,* provides exactly the same amount of revenue per weighted-pupil unit in each district. This has some serious limitations:

1. It makes the state-determined program a minimum as well as a maximum program.
2. It provides no way for a school district to enrich its program beyond that which the state mandates.
3. It removes fiscal responsibility from the control of local school boards.
4. It may tend to jeopardize local school programs when the state's revenue will not support full state funding at a desirable level.

When the columns *b* model is used, the result is nonequalization among districts of varying taxable wealth per weighted pupil. Thus, when all three districts use the maximum 10-mill levy, the net effect is that District L has available only $360 per mill per weighted-pupil unit, while District H has $480 per mill per weighted-pupil unit.



Full State Funding

Districts	*Assessed Valuation*	*State Funds per WPU*	*Required Local Levy*
L	$ 40,000,000	$3,200	Nil
M	80,000,000	3,200	Nil
H	160,000,000	3,200	Nil

Almost Full State Funding with Minimum Local Options

Additional Local Levy	*# WPUs*	*Local Funds per WPU*	*Total Funds per WPU*	*Total Funds per M per WPU*
District L—10 mills	1,000	$ 400	$3,600	$360
District M—10 mills	1,000	800	4,000	400
District H—10 mills	1,000	1,600	4,800	480

MODEL 4.1 Full State Funding versus Almost Full State Funding with Local Option

By the use of nonsupported local optional levies, the equalization accomplished with full state funding has been neutralized to some degree. Of course, if the state provides funds for nearly all the cost of school district programs, with only minimal local optional levies, the latter may not seriously upset the overall equalization that the program produces.

Ramifications

Full state funding under any plan raises some questions about an attendant increase in state control of local schools and a corresponding decrease in the power and authority of local school boards. Some feel that recent increases in state support of local school revenues have already reduced the role of local school boards in administering schools to an undesirable and irreversible point. Others suggest that the high degree of local control of half a century ago may not be possible or desirable in today's world.

As the name implies, full state funding places the burden for providing a good public school program completely on the state itself. There is little promise that the typical legislature, in the face of extreme pressure for state funds from all state institutions, would year after year provide the money necessary for the high-level educational program desired by the citizens of its various school districts. Determining the amount of money necessary for education could very well become an "average practice" minimum program, completely lacking in local incentives.

Full state funding is an acceptable plan for districts that would be "leveled up" to expenditure levels or standards above their previous position. But "leveling down" or forcing some districts to remain at their current expenditure level could result. It is doubtful that leveling down or maintaining the status quo could be operable in any state. Hence, the state itself would be forced to find a system or rationale for providing funds above the established amount for expensive or high-expenditure school districts.

Probably the most negative aspects of full state funding are twofold. First, the state would exercise the power to determine the amount of revenue in every district with little regard for the educational needs or desires of the local citizenry. Second, there is no way to determine, on a rational and objective basis, which districts should be given the funds necessary to explore innovative practices or encouraged to become exemplary. Since local districts would make no tax effort on their own to finance education, the state would lack a legal framework or device with which to determine which schools or in what amount state funds should be allocated to "deserving" districts.

It is likely that full state funding would lead to the extended use of sales and income taxes, with less emphasis on the property tax. There is much to be said in favor of this change, but the plan tends to discourage, if not obliterate, local initiative and special tax effort to provide better schools than those legislated by the state. Thus far, the states have found no satisfactory substitute for the incentive grants that have been used to provide better programs in districts where there is no expressed desire to extend local effort to obtain such excellence.

Full State Funding Not Defined Accurately

Part of the problem in considering the philosophy of full state funding lies in its definition. If taken literally, *full* state funding has some distinct limitations in its application to several districts within a state (as pointed out in this chapter). However, if the term *almost full* state funding is used, there could be options available to local districts that could mitigate or eliminate most of the disadvantages of this system of financing education. The latter definition is the one most commonly used, even though it is incongruent with the term itself.

District Power Equalization

An alternative to full state funding is *district power equalization (DPE)*. Various terms have been used to describe the concept, including *equalized percentage matching* and *open-end equalization. Power* is perhaps a more appropriate term to use than the others because the principle literally provides a poor school district with the power to obtain as much revenue per student as more wealthy districts making the same local tax effort. By definition, *DPE* means that each local district mill levy should produce the same number of dollars of total school revenue per mill per weighted student in every district, and the last mill to be levied should produce the same total funds as the first one. This concept was advocated in 1922 by Updegraff but found little support until the early 1970s. Its later popularity came largely as a result of the lack of support for full state funding as a means of providing equal protection as mandated by court decisions and recommended by several school finance studies.

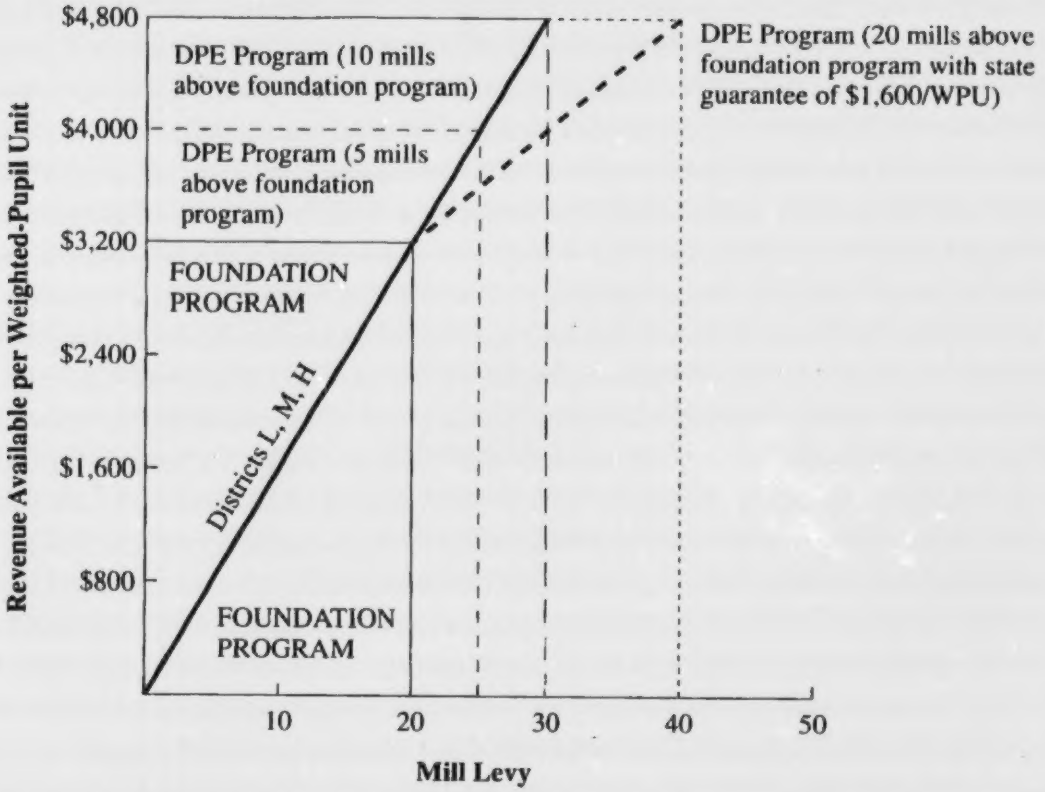
Burke summarized the philosophy concerning extension and improvement of the foundation program concept in the following:

> Some new possibilities have been seen by some in the reward-for-effort theory as first developed by Harlan Updegraff in 1919 and as applied in Wisconsin in 1949 and Rhode Island since 1960, and as proposed in a number of other states such as New York. Under these plans, a given unit of tax effort in a locality with low fiscal ability is made to produce the same number of dollars of revenue per pupil as would result from the same effort in a district with average or above-average fiscal capacity. Thus, the level of the state-supported equalization program rises with local tax effort in the ready and willing local units and with the success of the state and/or local leadership in overcoming nonfiscal limitations in others.[5]

Some states require state equalization at the same rate for the entire educational program as is determined in the foundation program. The local district determines the limits of the local effort, and the state maintains financial responsibility for the entire program. This open-end equalization program is often referred to as *equalized percentage matching (EPM).* It is sometimes viewed as a means of opening a state's financial coffers to every local district. It is extremely effective in obliterating financial advantages for one district over another in providing for high-quality education rather than simply a minimum or foundation program.

Model 4.2 illustrates district power equalization with full state support for each mill of tax levy. Model 4.2a shows the same principle, but with all levies above those of the foundation program supported by the state at a fractional part of the original amount. This, of course, flattens the graph line (see model), thereby decreasing the state percentage and increasing the local percentage of revenue produced. The program remains equitable, however, so long as the level is kept above the amount the wealthiest district could produce locally or if all surpluses were recaptured by the state.

It should be noted that the steeper the line in a DPE formula graph, the greater the so-called raid on the state treasury and the less the effort required at the local level. Increased costs by this process would probably cause a state to flatten the DPE line and thereby increase the local district's share of the cost of the educational program. By this process the state should be able to control the degree of depletion of its treasury this program would bring.



MODEL 4.2 District Power Equalization; 4.2a Reduced Percentage Power Equalization (dashed lines)

Following is a simplified example of how an equalized percentage or power equalization program might function. Note that four mythical districts of widely varying assessments of taxable property per weighted-pupil unit (WPU) are compared in the calculation of a foundation program with an equalization program of $1,000 per weighted-pupil unit with a required local levy of 10 mills.

Foundation Program

District	*Assessed Value/WPU*	*Mill Levy*	*Guaranteed Amount/WPU*	*Revenue/WPU* *Local*	 *State*	*Local/ State Ratio*
A	$50,000	10	$1,000	$500	$500	1:1
B	40,000	10	·1,000	400	600	2:3
C	10,000	10	1,000	100	900	1:9
D	5,000	10	1,000	50	950	1:19

Program above the Foundation

District	Assessed Value/WPU	Mill Levy	Guaranteed Amount/WPU	Revenue/WPU Local	Revenue/WPU State	Local/ State Ratio
A	$50,000	2	200	100	100	1:1
B	40,000	2	200	80	120	2:3
C	10,000	2	200	20	180	1:9
D	5,000	2	200	10	190	1:19

District A has its local revenue matched by the state on a 1:1 basis, District B on a 2:3 basis, District C on a 1:9 basis, and District D on a 1:19 basis. This, of course, is a simple foundation program. If each district goes 2 mills above the foundation program on a DPE basis, District A gets a $1,200 per WPU program, with $600 local and $600 state revenue; District B has the same program, with $480 local and $720 state revenue; District C has $120 local and $1,080 state revenue; and District D has $60 local and $1,140 state money. Thus, a power equalization program requires the state to continue its degree of partnership with each district for the full program. By this process, financially weak districts (such as District D in the preceding example) are able to offer as good a program (in terms of cost) as wealthier ones. This is the essence of the philosophy of equality of educational opportunity.

At first glance, it may seem that this creates a standard program for every district within a state. Such is not the case, however, for each local district would have the right and the responsibility to determine what the local tax rate would be over and above the mandated foundation program levy. In this way, local control is assured and state partnership responsibility is mandated. To illustrate this, suppose that District A elected to levy 1 mill above the mandated foundation program, District B decided on a 2-mill increase, District C a 4-mill program, and District D a 5-mill increase. The result of this would be as follows:

Optional Program above Foundation Program

District	Increased Tax Levy	Guaranteed Amount per WPU	Local Revenue	State Revenue	Local/State Ratio	Total WPU
A	1 mill	$100	$50	$ 50	1:1	$1,100
B	2 mills	200	80	120	2:3	1,200
C	4 mills	400	40	360	1:9	1,400
D	5 mills	500	25	475	1:19	1,500

It can be seen that equal levies bring equal dollars in all districts, but each district is free to choose the level at which its program will be supported. This preserves the element of local control in decision making, but at the same time it requires the state to support the entire program to whatever level the law permits local districts to operate.

The merits of district power equalization are readily discernible. Local control of the extent to which the educational program goes above the state minimum rests with each individual school board, but the state cannot escape its proportionate financial responsibility. Districts are motivated to make adequate tax effort, for if they spend less they lose more. Complete equalization is possible in spending as well as in tax effort. If there is a high enough ceiling on local tax options, the inequalities encountered between wealthy and poor districts, which are obvious in a typical foundation program with unsupported local options, disappear. The only restriction to an adequately financed program thus becomes the willingness or unwillingness of the people at the local level to tax themselves within reasonable limits. With the state matching the local district on a predetermined basis in terms of local ability, the previously unrealistic tax requirements for a quality education program in a poor district are reduced greatly or even eliminated.

Figure 4.1 is an example of the limited power equalization concept. Of the 40 districts shown, 4 provide 100 percent of the basic program. Note that only 32 percent (the state average) of the total maintenance and operation basic program is provided from local property tax when all districts assess a required 22 mills. The 68 percent state guarantee of $2,000 per weighted-pupil unit comes from state resources. The limits are controlled by the $2,000 guarantee.

In Figure 4.1, District 17 is used to further clarify the concept. There are 14,500 students in average daily membership with various weighting factors that provide the district with 18,000 WPUs. The state guarantees $2,000 per WPU, or $36 million for the basic program. The district is required to assess 22 mills (.022) against property with an assessed value of $409,090,909, which raises $9 million locally, or 25 percent of the needed revenue. The state provides the other 75 percent, or $27 million, to guarantee an equalized dollar figure for the district.

Table 4.1 demonstrates how a specific program, in this case a local voted leeway, can shift the delicate balance of equity without power equalization participation from the state. Note that 1 mill (.001) raises $125.00 per WPU in District A, whereas in District F it raises only $10.26 because of the low assessed value of property in relation to the number of WPUs. If the average expenditure per WPU in the state is $3,000, then District A is able to provide over 40 percent additional revenue per WPU

TABLE 4.1 Revenue Raised in Local Districts with a Voted Leeway and No State Support

District	Revenue per Mill	Number of WPUs	Revenue per Mill per WPU	Mills Approved by Voters	Total Revenue per WPU
A	$ 200,000	1,600	$125.00	10	$1250.00
B	$3,000,000	35,000	$ 85.71	4	$ 342.84
C	$ 375,000	7,500	$ 50.00	3	$ 150.00
D	$ 480,000	16,000	$ 30.00	7	$ 210.00
E	$1,600,000	82,000	$ 19.51	9	$ 175.59
F	$ 400,000	39,000	$ 10.26	10	$ 102.60
G	$ 600,000	20,000	$ 30.00	0	0

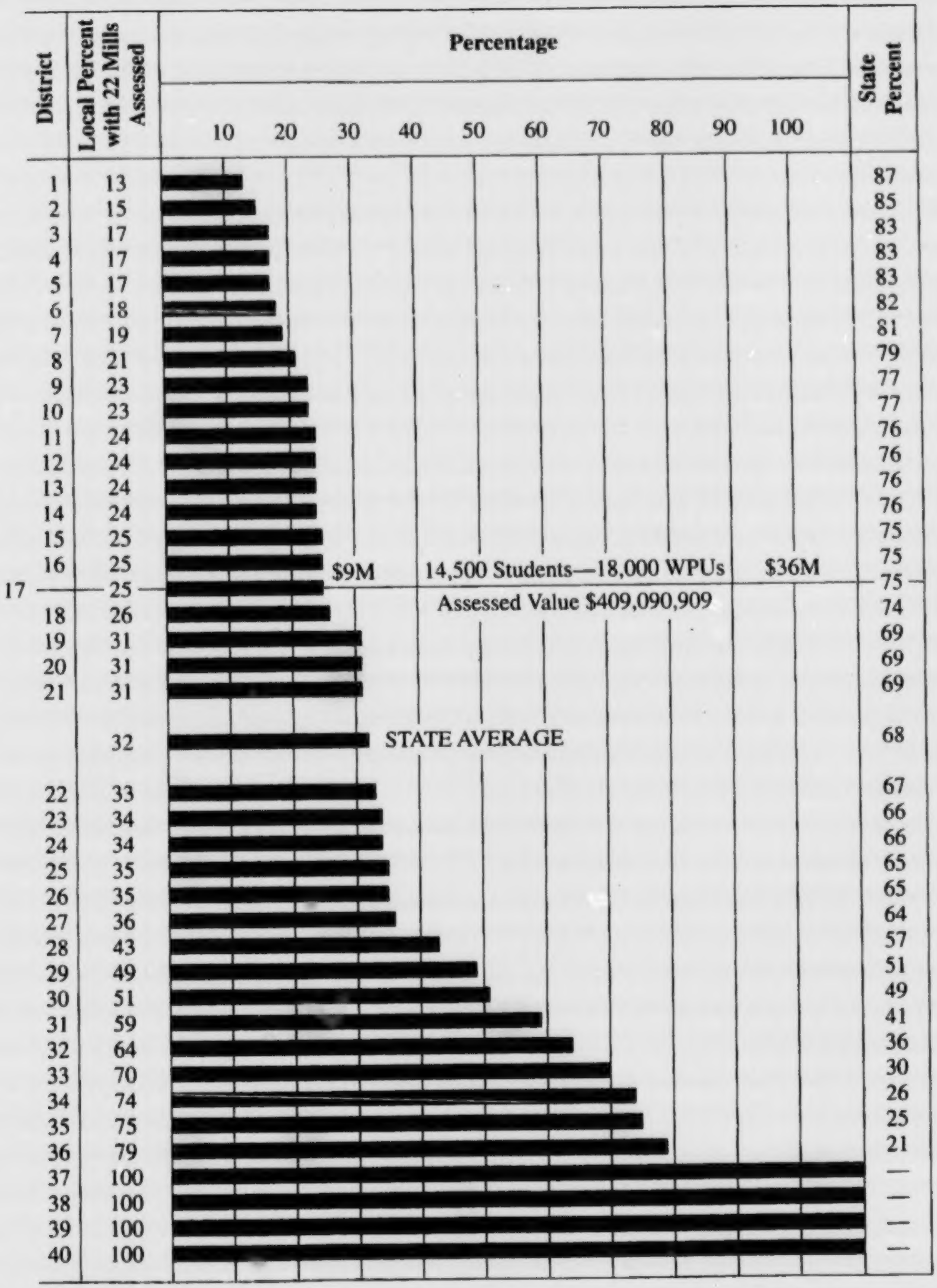


FIGURE 4.1 Limited Power Equalization—Percent of Local Revenue Raised toward the Basic Maintenance and Operation State Guaranteed Program of $2,000 per WPU When a Minimum of 22 Local Mills Is Required

when voters approve a 10-mill local voted leeway. This example also demonstrates the inequity between districts if one is able to pass a local leeway while voters in another district may not be willing to do so, as in District G.

Property Reassessment and Local District Revenues

Many of the states have found it difficult to raise their finance programs beyond the state equalization requirement. It is often difficult to get the voting public to approve leeway or override levies in the face of already high property taxes. This is particularly difficult at times when property assessments have just been increased, a practice that is mandatory at stated intervals in several states. Those who do not understand the equalization principle often have the idea that property assessment increases automatically bring local property tax revenue increases. They thereby assume that local leeway increases are unnecessary under those conditions and vote against them.

District 17 in Figure 4.1 will be used in a further example: If, after a reappraisal of property, the assessed value increased by 10 percent (or to approximately $450 million), 22 mills would raise $9.9 million, which provides a "windfall" of $900,000 to the state rather than to the local district and would change the percentage of local contributions from 25 percent to 27.5 percent and decrease the state contribution to 72.5 percent. Of course, if the program is not state supported, increases in assessment bring commensurate increases in local revenue.

The state would participate in a leeway to the same degree as in the basic equalization program, if it were involved in a power equalization program. The amount of total funds available to the district would be the same—regardless of the extent of property assessment increase. On the other hand, if the override or leeway portion is not state supported, increased assessments do bring additional local tax revenues. When the state-supported foundation program and a nonsupported leeway program are considered together, the percent of total budget increase in a "poor" district is considerably less than in a "rich" district.

Computerization has made it possible for counties and states to reevaluate property on a yearly basis. For many years, the reassessment was a continual job, and some properties may have gone for years without updated values. Extremes were very noticeable when properties, in some cases, were not reassessed for over 20 years. To control local districts from gaining a "windfall," legislators often reduce the required mill levy in a power equalization program and limit increases in voted leeway and capital outlay budgets. In some cases, it might be a percentage cap in relation to the previous year's revenue or require a "truth in taxation" hearing to provide the public the opportunity to express concerns over tax increases brought about by increased property values.

Determining the Best Finance Plan

There are many plans available to states for the allocation of funds to local districts. Various combinations of equalizing grants, adaptations of the foundation program principle, and varying degrees of power equalization may be used to utilize the advantages and eliminate the disadvantages of each. The state may use categorical or special-purpose funding to encourage the introduction or stimulation of innovative programs. It may use instructional programs or units as the basis for determining the size of state allocations to local districts, or it may set up state standards or guidelines and use state committees to negotiate with local districts for budget plans that meet the unique needs of districts. Thus, the number of potential state financing patterns is almost unlimited.

A state may be making excellent strides improving its system of financing the foundation program. However, through politics and pressure groups influencing legislators, many special categorical programs emerge that tend to skew the equity aspects of a state's basic program. California is an example of this phenomenon, providing over 50 categorical programs funded from state sources. It has been estimated that the various states use nearly 400 kinds of aid to local districts, including the minimum program, transportation, salary-schedule allowances, and shared state taxes.

The choice of financing programs is great, but at this point in school finance reform there are no perfect systems for distributing state funds to local school districts. Each plan has limitations and falls short of equalizing financial resources to the complete satisfaction of all the people concerned. Some systems are better than others, and some states make greater efforts to improve than others. Given the inequities that exist in almost every state plan, there is no room for complacency in viewing school finance reform in any state. Certainly, there is little justification for maintaining or preserving traditional methods until a panacean formula is discovered.

No one way is generally accepted as the best, in terms of its popularity over all other plans, for organizing the state-local partnership for financing education. Programs now in existence vary from Hawaii's one-district system, where the district covers the state and is the sole taxing and financing unit for the operation of all its public schools, to programs in which state-level allocations to local districts involve only a relatively small part of the total funds available to local districts. All other states come somewhere in between these two extremes.

It is safe to assume that school financing plans of the future will emphasize greater state involvement and proportionately less local responsibility. Since the property tax is the realistic source of local revenue and since its utilization has reached most extreme proportions, it is evident that state tax sources will have to be increased to meet the surging costs of education. Of the big revenue producers, the sales tax and income tax are used mostly by state government. These taxes are probably destined to bear the brunt of the tax increases that appear to be necessary now and in the future to finance the high-quality education programs that nearly all citizens demand.

Equalization of Services

One idea on future state financing of education, whether through complete state financing or some degree of state-local partnership, involves state equalization of services rather than of dollars. One of the chief problems in state allocation of funds revolves around the incontrovertible fact that equal dollars provided to unlike districts result in unequal units of service. Similar amounts of money never result in equal purchases of instructional services, since some districts must pay much higher salaries than others. The costs of school buses, gasoline, or any other required services or supplies vary considerably in all the districts of all the states. The fairest measure of equalization, then, would be the program that equalizes the required school services in all school districts. Such a principle needs no justification, but much more research and experience will be required before it replaces present-day equalization of dollars among the school districts of any state.

Emphasis on Weighting Factors

Determining the funds necessary to operate a school program, regardless of the process or formula used, is a function of the "need" of the school district. Need is related first of all to the number of pupils to be educated. There are many other determinants of need, but the number of pupils in average daily attendance (ADA) or the number of students in average daily membership (ADM) forms the basic unit of measurement. Established number reported (ENR) is used in national reports. Although schools have used, and continue to use, the idea of providing equal dollars for all children in the state as the measure of equality of educational opportunity, such a concept is really not valid. Equal dollars per student do not produce equal products or equal results. Further, unequal educational opportunities are certain to result when funding does not consider such common variables as physical and mental disabilities, socioeconomic backgrounds, language deficiencies, and many other diverse characteristics of students.

In addition to differing student characteristics, the cost of an educational program is related to such existing variables as the size of the school district and the size of the school attendance area, for the cost of educating 25,000 pupils is not necessarily exactly 100 times that of educating 250 pupils. Similarly, the cost of operating a high school of 500 pupils may not be the same as that of financing 500 elementary pupils. Schools with a high percentage of pupils with disadvantages cost more than those with a lower percentage. Sparsity factors make the cost of education in small rural communities higher than in average-sized towns. On the other hand, the unique problems of large cities and metropolitan areas make the cost of education proportionately higher, even though some might expect economies of scale to apply.

Weighting factors are perhaps the best measures of the amount of additional resources and services needed to provide all students, regardless of their personal or environmental disabilities, with reasonably equal educational programs. Fortunately, there are relatively few citizens who continue to challenge the humanistic view that children who have physical or mental challenges, or who attend school in exceedingly small or extremely large and disadvantaged schools, should benefit from educational programs that are more costly than "normal" ones.

Although some have thought that the weighted-pupil concept was a direct discovery of the *Serrano* era of school finance reform, only its degree of acceptance in recent school finance programs is new. Mort and Reusser pointed out the long tradition of this fundamental principle over 50 years ago: "The weighted-pupil unit (or its mathematical equivalent—the weighted-classroom unit) is the most systematically refined of all measures of educational need and has been in practical use for a quarter of a century in state-aid laws, in expenditure comparisons of various types of districts, and in comparisons of ability to support schools."[6]

The many inequalities that exist force states to recognize that the number of pupils by itself does not indicate the operational need of school districts. Disparity in fiscal needs arises from the composition of the pupil populations. That being true, it becomes necessary for weighting to be made if fairness and equality of educational opportunity are to be achieved.

Weightings would lose their importance and become superfluous if the schools to be served had the same proportions of variables that appear to require weightings. If 40 percent of the pupils in every school district are secondary school pupils, there would be little need for weighting this factor. If every district had 10 percent of its pupils in small or isolated school attendance areas, there would be little need for weightings here. However, these factors are never constant from district to district. Weighting tends to put the extra costs incurred in providing maximum quality education for pupils with special or more than average problems where they belong—on the state.

Principal Types of Weightings

In any consideration of the number of pupils as a determinant of the money needs of a district, several important weightings could be considered: (1) the sparsity or isolation of pupils in rural areas, (2) the density of pupils in heavily populated metropolitan areas, (3) the grade levels of pupils, and (4) the degree of disadvantage certain classes of pupils may suffer, such as those who require special education services. Consideration should also be given to the training and experience of the professional staff members of each district. To consider all pupils to be of equal worth or cost is no more erroneous than to consider all teachers to be of equal worth or cost to a school system.

Sparsity Factors

The need to provide additional funds to help finance the small schools that operate in nearly every state has long been recognized and accepted. Bass noted:

> Small rural school districts face a wide variety of problems, from difficulty in hiring and retraining quality teachers to the inability to field competitive athletic teams because of the limited number of students. But by far the most critical and pervasive problems deal with costs and revenues. Small schools, if they are to provide educational programs similar in breadth and quality to those of larger schools, will inevitably incur higher per-pupil costs due to limited enrollment, small pupil-teacher ratios, higher utility and other operational costs per pupil, and other factors that limit economies of scale.[7]

State legislatures, mostly rurally dominated until recently, have usually made provisions for the protection of small and expensive schools and districts. The methods used may vary from state to state, but the end results are much the same. Typically, the process used involves weighting such pupils in the finance formula so as to require the state to pay its proportionate share of the higher costs involved in the education of pupils in small groups. At the same time, some states give the state board of education the responsibility of determining when such privilege may be rescinded or withdrawn, as when some small schools might reasonably be expected to be consolidated or reorganized into larger and more efficient units. Sparsity weighting factors are difficult to construct.

In an effort to reduce the inequalities of schools with small enrollments, Utah uses a model formula, which provide extra revenue for necessarily existent small schools. They have one school of three persons in a remote area on the Utah-Nevada border, another of five on the Utah-Idaho border, and nearly 100 other small schools scattered across the state. This condition is not unique; many states with a large land area and small populations have small and remote schools. The concept that the formula reflects is since additional per-pupil costs exist in schools with fewer students, to provide them an adequate education it is more equitable to contribute extra resources per pupil than in a normal-sized school.

Based on the weighted pupil unit and average daily membership, the formula covers the various school levels—elementary through a six-year secondary program. At the elementary level, a school with an enrollment of 1 to 10 in average daily membership receives 30 added WPUs, increasing to 54.8057 additional WPUs for a 50-student school. At this point, the scale lessens as average daily membership draws closer in size to a normal school and the extra WPUs end at 160 students (see Table 4.2). The WPUs per ADM is shown on the right side of the table. In a school with 2 students, the per-pupil WPUs would be 15 (15 × 2 = 30; for 3 students, 10 × 3 = 30; for 4 students, 7.5 × 4 = 30; and so on). At the 159-student level, it would be 0.01069 × 159 = 1.6996 additional WPUs, which is reflected on the left side of the table and used in computations; at 160 pupils, it is 0.00625 × 160 = 1. The small school has reached the size of a normal school, hence only 1 additional WPU is provided.

The same principle applies at the secondary level in one- or two-year schools, as well as three-, four-, and six-year schools. The corresponding numbers in Table 4.2 show the additional WPUs generated for each of the schools at the various levels. Each of the secondary schools increase their WPUs as the student numbers increase, which encourages schools to consolidate smaller schools. At a certain point, the additional WPUs decrease as they approach the size of a normal school. For a one- or two-year high school, the optimum WPU level is at 100 students, who generate 119.1384 additional WPUs in average daily membership; the additional WPUs cease at 300 students. For three-year secondary schools, the apex is at 142 students, who produce 114.5469 additional WPUs, which cease at 450 students. A four-year secondary school tops at 171 students at 140.69901 additional WPUs and ends at 550. The six-year secondary school yields 150.4232 at 192 students and ends at 600 students (see Figure 4.2). This may appear to be unnecessary manipulation to approach equity. In a state with small schools it is an important factor in providing an adequate education in small and remote areas.

TABLE 4.2 Necessarily Existent Small Schools

	Weighted Pupil Units					WPUs/ADM				
ADM	*6-Yr. Sec.*	*4-Yr. Sec.*	*3-Yr. Sec.*	*1 or 2-Yr. Sec.*	*Elem.*	*6-Yr. Sec.*	*4-Yr. Sec.*	*3-Yr. Sec.*	*1 or 2-Yr. Sec.*	*Elem.*
1	30.0000	30.0000	30.0000	30.0000	30.0000	30.00000	30.00000	30.00000	30.00000	30.00000
2	30.0000	30.0000	30.0000	30.0000	30.0000	15.00000	15.00000	15.00000	15.00000	15.00000
3	30.0000	30.0000	30.0000	30.0000	30.0000	10.00000	10.00000	10.00000	10.00000	10.00000
4	30.0000	30.0000	30.0000	30.0000	30.0000	7.50000	7.50000	7.50000	7.50000	7.50000
5	30.0000	30.0000	30.0000	30.0000	30.0000	6.00000	6.00000	6.00000	6.00000	6.00000
6	30.0000	30.0000	30.0000	30.0000	30.0000	5.00000	5.00000	5.00000	5.00000	5.00000
7	30.0000	30.0000	30.0000	30.0000	30.0000	4.28571	4.28571	4.28571	4.28571	4.28571
8	30.0000	30.0000	30.0000	30.0000	30.0000	3.75000	3.75000	3.75000	3.75000	3.75000
9	30.0000	30.0000	30.0000	30.0000	30.0000	3.33333	3.33333	3.33333	3.33333	3.33333
10	30.0000	30.0000	30.0000	30.0000	30.0000	3.00000	3.00000	3.00000	3.00000	3.00000
20	54.3168	55.0927	59.1034	56.2480	43.0594	2.71584	2.75464	2.95517	2.81240	2.15297
30	70.7077	71.2559	75.7042	74.8348	50.2153	2.35692	2.37520	2.52347	2.49449	1.67384
40	84.1603	84.3296	88.8065	87.2609	53.7624	2.10401	2.10824	2.22016	2.18152	1.34406
50	95.4590	95.1459	99.3597	96.9447	**54.8057**	1.90918	1.90292	1.98719	1.93889	1.09611
100	131.5347	127.9862	128.2964	118.6364	39.2204	1.31535	1.27986	1.28296	1.18636	0.39220
110	135.9124	131.6283	130.8270	**119.1384**	33.6986	1.23557	1.19662	1.18934	1.08308	0.30635
142	145.5437	138.8279	**134.0254**	114.5469	13.4291	1.02496	0.97766	0.94384	0.80667	0.09457
150	147.0642	139.7315	133.8461	112.1111	7.9612	0.98043	0.93154	0.89231	0.74741	0.05307
160	148.5350	140.4302	133.1553	108.4257	**1.0000**	0.92834	0.87769	0.83222	0.67766	0.00625
171	149.6426	**140.6901**	131.8466	103.5998		0.87510	0.82275	0.77103	0.60585	
192	**150.4232**	139.8658	127.9338	92.3232		0.78345	0.72847	0.66632	0.48085	
200	150.3029	139.1414	126.0068	87.3668		0.75151	0.69571	0.63003	0.43683	
250	145.1713	130.3762	109.5269	49.1519		0.58069	0.52150	0.43811	0.19661	
300	133.9787	115.8863	87.2031	**1.0000**		0.44660	0.38629	0.29068	0.00333	
350	118.2511	97.2908	60.8835			0.33786	0.27797	0.17395		
400	99.0728	75.7405	31.8815			0.24768	0.18935	0.07970		
450	77.2547	52.0959	**1.0000**			0.17168	0.11577	0.00222		
500	53.4264	27.0246				0.10685	0.05405			
550	28.0905	**1.0000**				0.05107	0.00182			
600	**1.0000**					0.00167				

Note: For publishing purposes, the increments are in units of tens or more. On the Allyn and Bacon Educational Administration Supersite (www.ablongman.com/edadminsite), the entire table in single digits can be found.

Source: Utah State Office of Education (USOE), Finance and Statistics, 2001.

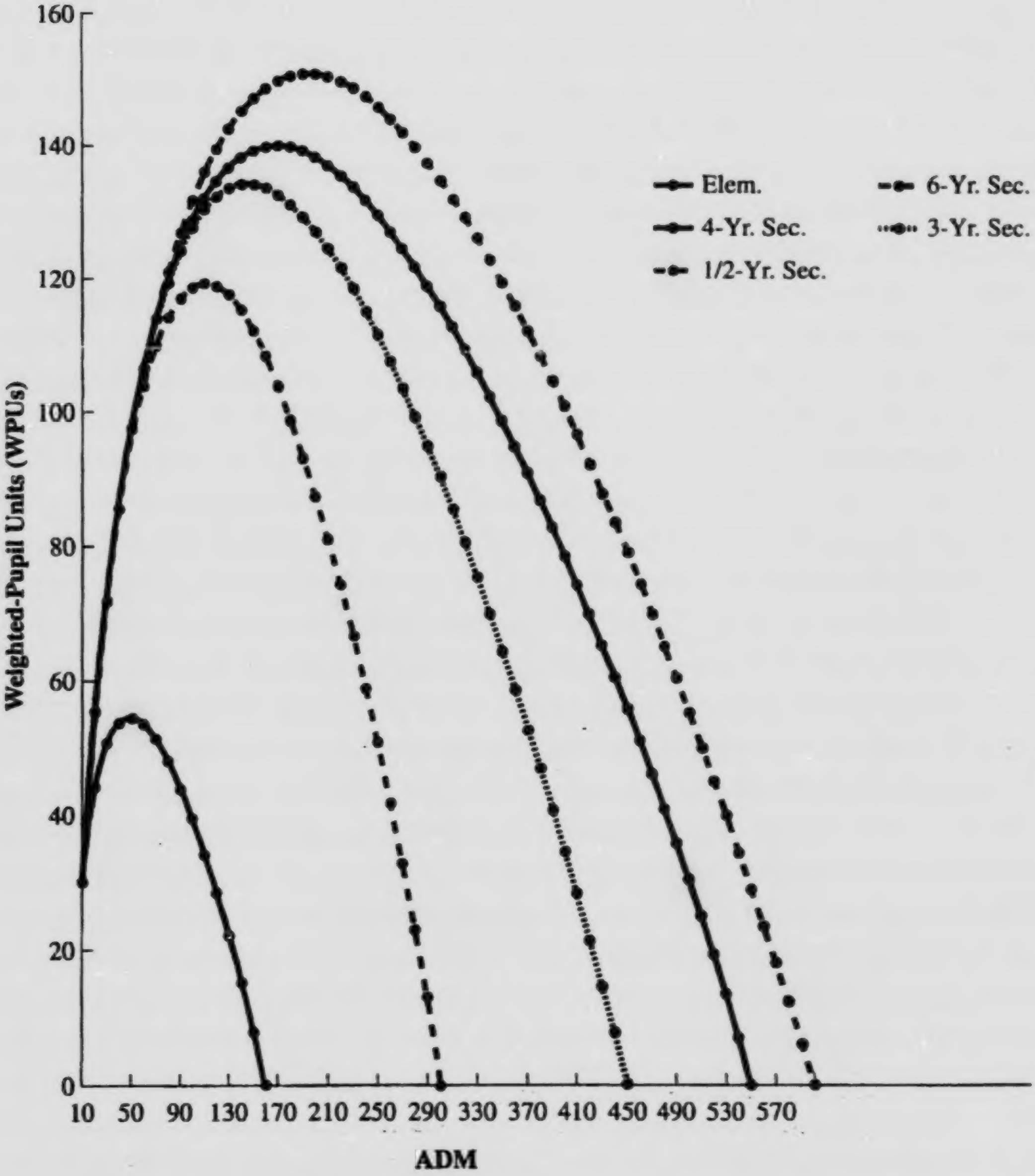


FIGURE 4.2 Necessarily Existent Small Schools

Density Factors

The sparsity factor has long been accepted and applied in finance parlance and in practice, but allocation of additional funds per pupil to large city school districts is relatively new and has had only limited application. Municipal overburden, large numbers of disadvantaged and exceptional children, the practical problems and additional costs needed for racial integration, and the higher salaries and operational costs resulting from strong union organizations are all a part of the finance problem of large urban

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areas. The best answer to this complex problem appears to be weighting of pupils. This would guarantee that the state would share in paying for these additional expenses, which are largely beyond the control of the districts involved.

There is an understandable reluctance on the part of people, even many of those who are knowledgeable in school finance matters, to recognize and solve this problem. For many years, the city school districts enjoyed financial and cultural advantages over their rural counterparts. Less reluctance to exploit the property tax, better-prepared teachers and administrators, more cultural opportunities to abet the school program, and less citizen resistance to accept change and innovation all added their part to the natural advantage that city schools enjoyed over rural schools. Hence, the city schools provided much of the leadership for improving the curriculum and increasing the monies available for education.

The problem today is not the same and neither is its solution. The cities have been losing many upper- and middle-class citizens to suburbia, at the same time as less affluent and less well-educated citizens move to the cities to obtain employment. The tax base has thus been weakened while the problems of city school systems are increasing. The problems attending migration of people to and from the core of large cities, such as lower taxpaying ability, increased competition for the tax dollar to provide better police protection, greater social problems in the ghettos, and additional services required of government have placed the cities at a financial disadvantage for the first time in the nation's history.

Grade-Level Weighting

Traditionally, weightings for secondary pupils as compared with elementary pupils were widely accepted and implemented. The pupil-teacher ratio was lower, the average salary of teachers was higher, the cost of instructional materials and equipment was higher, and the student activities and out-of-school programs were more extensive and expensive for the secondary level. The validity of the assumption that secondary school pupils should have a weighting when compared with elementary pupils is questioned by some. The chief argument favoring the weighting is that pupil-teacher ratios are lower in secondary schools, thereby increasing the cost per pupil. There are, however, a number of arguments that build a strong rationale against such weighting: (1) There is little difference in salaries between the two levels in most states, since single-salary schedules make no differentiation. (2) With the emphasis on the use of computer laboratories, instructional media, and improved libraries for elementary schools, the differences in costs have largely disappeared. (3) Activities and field trips are no longer restricted or limited to secondary schools.

Special Education Weightings

Some aspects of the school's program will be more expensive than others—vocational education, compensatory education, and education for students who are physically or mentally disabled, for example. If one accepts the thesis that public education of the kind and extent that will allow all students to develop to their maximum potential should be provided, one must accept the corollary that these pupils or their programs must receive a weighting in the school finance plan. Programs in these areas were stalemated or nonexistent until states and school districts gave them weighting commensurate with their needs. Here again, the weightings may take many forms, such as special appropriations or grants and weightings of the individual students in such programs.

Following is a weighting approach that might be utilized to develop a finance structure for special education students:

Communicative disorder	1.1
Visually impaired	1.6
Other health impaired	1.8
Intellectually disabled	2.4
Learning disabled	2.4
Severely intellectually disabled	2.6
Hearing impaired—hard of hearing	2.7
Hearing impaired—deaf	2.9
Behavior disordered	2.9
Orthopedically disabled	2.9
Multiple disabilities	3.4

Students of school finance need to be aware of difficulties in defining special education categories and the significant task that legislators have in financing programs adequately. As a safeguard to state treasuries, *prevalence* limits may need to be applied, capping totals that would be available for each category. For example, in the area of learning disabled noted previously, a percentage of the total of student population could be applied at both the state and local district levels. In such a formula, if a percentage of .03 were established in a district of 10,000 students, each state through the legislature would provide funding for up to 300 students who are learning disabled. Although the financing structure is dependent on some type of special education identification, any form of labeling of students is unfortunate. Such designations should be handled with caution.

Teacher Qualification Considerations

Universal high-quality education is being stressed everywhere; it seems to be one of the absorbing concerns of the professional educator at the moment. The number of single-salary schedules throughout the country strongly implies that increased academic preparation and increased experience in the field improve the teacher and thereby improve the quality of instruction.

The finance problem enunciated by this dilemma can be seen very easily. The foundation program provides money for teachers and other operational costs in terms of the number of weighted pupils to be educated and also for other specialized employees or services. But the teacher requirement places the school district in a precarious position. If, in the employment of professional personnel, the superintendent strives to improve the quality of instruction, he or she will usually recommend hiring the teachers with the most training and experience—with attendant higher salaries. This leaves little or no state-equalized foundation program funds for operational costs. These would then have to be paid with local funds. If, however, a less qualified teacher is employed, funds from the foundation program can be used for other expenses, but this does little to improve the quality of the instructional program. The net result is that the wealthy districts employ the personnel they think will do most to improve the quality of instruction, but the poorer districts are forced to employ those with least demands on the salary schedule, regardless of other factors.

State foundation programs should include weightings that consider the qualifications of the professional employees, so that the state will pay its proportionate share of the cost of employing a better-qualified staff. Otherwise, the onus for improving instruction by employing better-trained and more experienced teachers rests strictly on the local district. If it is to the advantage of the local school district to employ personnel with more training and experience, it is also to the advantage of the state to help see that this is possible financially.

The average teacher index is calculated by placing each teacher's name in the proper training and experience slot on an index salary schedule, adding the index figures for all teachers, and dividing that total by the number of teachers. In the following example, District A (which obviously has a predominantly young faculty with limited teaching experience), with an average index of 1.20, is entitled to an additional 20 percent of its total of 80 teacher-earned classroom units. District B would receive 35 percent of 80 as additional units; and District C would receive 55 percent. The calculations for the foundation program would then be as follows:

Experienced Teacher Weighting Program

District A

1. Minimum program need—(100 + 16)(15,000)= $1,740,000
2. Local tax effort—(40,000,000)(0.015) = 600,000
3. State allocation—(step 1 minus step 2) = 1,140,000

District B

1. Minimum program need—(100 + 28)(15,000)= $1,920,000
2. Local tax effort—(40,000,000)(0.015) = 600,000
3. State allocation—(step 1 minus step 2) = 1,320,000

District C

1. Minimum program need—(100 + 44)(15,000)= $2,160,000
2. Local tax effort—(40,000,000)(0.015) = 600,000
3. State allocation—(step 1 minus step 2) = 1,560,000

District C, with its more experienced, and therefore more expensive, staff of teachers, would receive considerably more state money than District A or District B.

The state thereby shares the additional costs of experienced teachers. Under such an arrangement, no district would be forced to employ inexperienced teachers simply because they cost less. Teachers with greater experience and more extensive training would then be able to compete for positions with current-year college graduates and others with limited experience and training.

The arguments favoring weighting teacher qualifications in the foundation program do not go uncontested. Rural and urban districts and less wealthy districts are often forced, economically, to hire less qualified personnel. To the extent that this is true, such allowances for training and experience may reduce instead of induce equalization. When it is realized that without such allowances the only means the poor districts have of competing with wealthier ones in hiring the best-qualified teachers would necessarily come through greater local tax effort. With teacher-qualification weighting, however, the possibility of poor districts increasing the qualifications of their teachers becomes a reality. Concern over what the wealthy districts can do in this matter should be of little consequence, for most of the costs of such improvement in the more or less impoverished districts would come from all the taxpayers of the state rather than only from those who live in the school district.

Miscellaneous Weighting Factors

Many other weighting factors can reasonably be expected in state foundation programs. Notable examples include provision of funds for transportation, administrative and other professional nonteaching personnel, and capital outlay or debt service. The incidence of such factors is low, and there is little state acceptance of these in foundation programs. Though some of these are covered by special grants or appropriations, there is concern that they have a nonequalizing effect that erodes the foundation concept. After the courts have ruled and states have developed an equalization plan, legislators have circumvented the funding formulas by utilizing the categorical approach.

Greater interest and more state support needs to be developed in the weighting concept. Two areas that could receive immediate attention for stronger and more equalized support are capital outlay and debt service expenditures.

Summary

Full state funding of public education has been advocated by some writers for several years. Such a plan raises some important questions about increased state control and the problem of financing districts that desire to maintain special higher-cost programs.

District power equalization involves the principle of state-local partnership, where each local district mill levy would produce the same number of dollars of revenue per mill per weighted student (state and local) in every district. Its main disadvantage is the fear that such a principle might open the doors of the state treasury.

Property reassessment upward does not necessarily increase the total revenues made available to school districts. Typically, it increases the local district's share and decreases the state's share of funds—provided the program includes some form of equalization.

The use of weightings is increasing in school finance formulas. Special-interest groups have had an impact, and legislators have circumvented equalization plans by adding categorical programs to basic finance programs. The use of weighted pupils is gradually replacing the use of the actual number of pupils in determining the financial needs of a school district. Sparsity and density factors are also being used more extensively in determining the budgetary needs of local education agencies. States will continue to refine and expand weighting factors in school finance programs.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *full state funding, nearly full state funding, district power equalization, equalized percentage matching, sparsity, density, weighting factor,* WPU, ADM, ADA.
2. Using the following information about two school districts, solve the indicated problems.

District	Assessed Valuation	Weighted Pupil Unit
A	$40,000,000	2,000
B	15,000,000	900

	Foundation Program	Board Leeway	Voted Leeway
		$500/WPU *$1.40/$100 AV*	*$200/WPU* *$10/$1,000 AV*
State Guarantee *Required Levy*	*$900/WPU* *20 Mills*	*District A*	*District B*
Foundation program	1. Need (in $)	$__________ (1)	$__________ (13)
	2. Local effort	$__________ (2)	$__________ (14)
	3. State allocation	$__________ (3)	$__________ (15)
		$__________ (4)	$__________ (16)
Board leeway	1. Need (in $)	$__________ (5)	$__________ (17)
	2. Local effort	$__________ (6)	$__________ (18)
	3. State allocation	$__________ (7)	$__________ (19)
Voted leeway	1. Need (in $)	$__________ (8)	$__________ (20)
	2. Local effort	$__________ (9)	$__________ (21)
	3. State allocation	$__________ (10)	$__________ (22)
		$__________ (11)	$__________ (23)
All three programs	Total local funds	$__________ (12)	$__________ (24)
	Total state funds		
	Total funds		

Power Equalization

3. From the previous problem, calculate the following:

	District A	District B
Ratio of state revenue to local revenue (Foundation program)	(25) ______:______	(26) ______:______

a. Under the power equalization principle, how much money would the state provide for each of these districts using all three programs?

District A—$______ state money (27)
District B—$______ state money (28)

Total amount of money/WPU

District A—$______ (29)
District B—$______ (30)

b. Comparing the old program with power equalization, compare the total amounts of money available per WPU for each of the two districts if A levied a total of 36 mills and B a total of 38 mills.

	Old Program	Power Equalization Program
District A	(31) $______/WPU	(33) $______/WPU
District B	(32) $______/WPU	(34) $______/WPU

c. Repeat the problem, with A levying 38 mills and B levying 36 mills.

	Old Program	Power Equalization Program
District A	(35) $______/WPU	(37) $______/WPU
District B	(36) $______/WPU	(38) $______/WPU

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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1. *Stuart* v. *School District No. 1 of Village of Kalamazoo,* 30 Mich. 69 (1874).
2. *Brown* v. *Board of Education* (I), 347 U.S. 483, 74 S. Ct. 686 (1954).
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5. Arvid J. Burke, "Financing of Elementary and Secondary Schools," in Warren E. Gauerke and Jack A. Childress, eds., *Theory and Practice of School Finance* (Chicago: Rand McNally, 1967), p. 127.
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CHAPTER

5

Sources of Revenue

Awareness of the relationship between school funding and improvement in student achievement is increasing. Policy makers must not shy away from emphasizing the need for funding.

—The 2000 Phi Delta Kappa/Gallup Poll
of the Public's Attitudes Toward the Public Schools

Profits are realized only in the private sector of the economy. Since the public sector requires financial resources to perform its various functions and provide necessary services for society, some satisfactory system of diverting funds from the competitive and profit-making sector to public institutions must be arranged. The most successful system yet devised for that purpose is taxation. By such a process, resources are transferred with relatively little difficulty from where they are produced to where they are needed. Although the tax system in the United States has its critics and its areas of unfairness, no country has yet devised a better system for the orderly transfer of private monies to public purposes.

Economists often refer to the affluence of the private economy, but similar references to the financial status of the public sector are seldom made. The latter is always dependent on the former for its degree of affluence, and even its survival. Periodically, people in the private sector indicate their dissatisfaction with the performance or the products of public institutions and withdraw a portion or all of their financial support from the "offenders." Because of taxpayer revolts against taxes, court or legislative action, or even voter indifference, the financial well-being of public institutions is determined by the attitude of those who provide its financial support through a system of taxation.

The Taxation System

The term *tax* serves as a firm reminder to people that they have been given personal and mandatory responsibility to divert a certain amount of their wealth—past, present, or future—to become part of the revenue required by institutions and units of government performing public services. A direct relation may or may not exist between the amount of tax paid and observable benefits to the individual taxpayer.

Taxes are a function of three variables: (1) the tax base (value of the objects or items to be taxed); (2) the assessment practices being followed (the percentage of market value applied to the object being taxed); and (3) the tax levy (the rate applied to the assessed value of an object or item to determine the amount of tax obligation). Tax rates mean little until they are related to assessment practices and values or compared with them. When comparing taxes and tax effort where there are differing assessment practices, one must convert assessed value into market or sale value of the property in question.

A county in Pennsylvania has drawn attention to the misleading practice of determining a true tax effort. Until 1999, homes were assessed at 3.3 percent of market value. To raise needed revenue, school districts in the country have coped by imposing extremely high tax rates, such as $450 per $1,000, which raises about $3,000 on a $200,000 home with an assessed value of $6,600. Although this provides funding for the schools, it presents a distorted picture of wealth of the district and an unusually high tax effort. The county had not had a reassessment for over 50 years and new homeowners were paying an exorbitantly high percentage of property taxes. By court order the county was mandated to upgrade the assessments and change the tax rate schedule. Starting with the year 2000, the assessments are on 100 percent of market value. Now, a $200,0000 home with an assessment of $15 per $1,000 raises $3,000 and presents a more realistic picture of the community—one with a reasonable tax base in an affluent area.[1]

The tax system, even though it has existed and operated for a long time in each state, does not provide an easy answer to the question of how much or what percentage of government revenue should be allotted to each of the institutions or agencies it sponsors. What formula or what device should be used to allocate private funds to the publicly sponsored organizations in order to bring maximum benefits to society? No one claims to have found the answer to this question.

Although the public sector obtains most of the revenue it uses by taxation, several other minor sources are used to supplement tax funds. The sale of government services or products, the sale of government-owned property—including land and such other assets as surplus equipment—licenses, fines, forfeitures, incomes from investment, special fees, gifts, business partnerships, and transfer funds from other levels and agencies of government are among the other sources of such funds.

Education—Financed by Government

Education is a beneficial service (nonmaterial good) that should be made available to all eligible citizens of a country regardless of their degree of affluence. Under such a system, it is necessary for education to be financed by government with its capability of collecting resources from the private sector and distributing them equitably among institutions in the public sector. In spite of the fact that education produces externalities and large-scale spillovers that benefit the larger society, historically, it had been financed largely at the local school district level. In the opinion of many, this fact creates one of the more difficult problems with which educators must concern themselves—providing equitable school programs and creating equitable tax burdens within the framework of the property tax system.

Rate Bills Are Obsolete

Early in its history, the United States proved to the satisfaction of its citizens that rate bills (the requirement that each pupil pay a fee), tuition charges, fees, and the like would not provide universal and equal education for its children and youths. Discrimination against the poor and against large families destroyed the supporting philosophy for this method of financing education. The only defensible alternative was the development of a tax system with a supporting rationale. It was slow in its implementation; states gradually adopted their own unique systems of taxation. Although these were satisfactory for a long period of time, local dependence on property taxes to the omission of other forms of taxation has been widely criticized.

Taxes Are Often Unpopular

It has been said that the only good tax is the one paid by someone else. Dislike for paying taxes that increase year after year is a normal reaction for people for many reasons: (1) If the tax rate is high, paying taxes may seriously curtail other activities and reduce the quantity and quality of other economic goods and services then available to the taxpayer. (2) The complex society of interrelated institutions makes it increasingly more difficult for a taxpayer to see and understand the personal benefits resulting from tax dollars. (3) The increased services that are required as the population increases and social institutions become more complex are not understood or favored by many people. (4) If tax rates get too high, individual assets decrease. There is a point when taxes decrease revenue because it seems futile to earn more, as too much is taken in taxes. (5) When increased taxes are being considered, much misleading information concerning taxation is often issued by those who favor increased taxes as well as by those who oppose them. (6) The average taxpayer thinks of the "cost" of education rather than the "investment" in human capital that results from taxation for that purpose. (Unfortunately, there is little opportunity to provide the information necessary to develop this important concept for a majority of the adults in society.)

Characteristics of a Good Tax System

Most school finance and tax authorities agree on many of the most important guidelines that should be followed in establishing or evaluating a good tax system. It is extremely difficult to achieve complete or even satisfactory implementation of these general principles, however. Consequently, no taxing unit—local, state, or federal—has yet produced a taxation program that meets universal acceptance by all its taxpaying clientele. Nonetheless, certain basic principles and theories of taxation are generally accepted as appropriate characteristics of a viable tax system at any level of government.

Tax Systems Should Be Coordinated

Even though there is usually very little planned coordination in the tax programs of the three levels of government, none of the three can be evaluated realistically without simultaneous consideration of the other two. Individuals tend to measure their tax "burden" by the total taxes they are required to pay rather than those they are required to pay to any one level of government. It is important, then, that the total number of tax systems operable in any community or geographic unit be coordinated and interrelated in a defensible and balanced program. Any duplication of taxation structure should be minimal. Equity and balance should exist among the various forms of taxes that are an integral part of the total system.

All Citizens Owe Taxes

The benefits of government services are shared by all the nation's citizens in varying degrees, depending on their needs. Protection from fire and acts of violence, and also many other aspects of the police power exercised by government, are the inherent right of all individuals, businesses, and other organizations. Financial support for these services is therefore required from all who receive the benefits or who stand to receive them.

A good tax system provides that every person and every business be required to pay some tax to government. It is a distinct violation of good taxation theory to use tax laws that have gaping loopholes whereby many citizens or businesses can escape paying their share of the tax burden. Such unfair exclusions make those who contribute pay more than their fair share of the costs of government services.

Justice and Economic Neutrality

As a matter of simple fairness, a good tax system distributes the burden it creates among all its citizens in an equitable manner. Admittedly, what is equitable is often a question of the frame of reference of the person or organization making the determination. Generally, however, it can be shown that a reasonable progressive income tax is the most equitable single tax. Income is the best of all the measures of taxpaying ability; progressive tax rates make the tax fair, for even though higher incomes require higher taxes, the burden to the taxpayer is not greater. In spite of the advantages of the income tax, no economist or tax authority would favor using it to the exclusion of all others. A single tax, regardless of its basic fairness, can never be fair for all citizens of a taxing unit. Taxation theory requires diversification with a broad tax base—such as income, sales, and property—so that an individual's "escape" from a particular kind of tax does not mean complete exemption from paying a tax of any kind.

Diversification of taxes is important, but simplicity is equally necessary in any good tax system. Taxpayers cannot be expected to support intricate and complicated tax laws they cannot understand. In theory, taxpayers should be able to calculate their own taxes with a minimum of help or instruction.

The maintenance of economic neutrality among taxpayers must not be disturbed by patterns of taxation. Citizens and business should be left in the same relative position to one another after paying taxes as they were before. Persons with greater income before taxes are paid should still have greater unspent income after taxes are deducted than those with lower incomes. It is important that special taxes that affect certain individuals or businesses be minimized in comparison with broadly based taxes.

Adequacy of Yield

Maintenance of the extensive services of government requires large amounts of tax revenue. It is therefore important that taxes be applied to productive sources. There is no point in complicating the system by the addition of taxes that have little individual potential for yielding revenue in substantial amounts. Nuisance taxes that provide only minimum revenue should be avoided as much as possible in the taxing system of any level of government.

Progressive versus Regressive Taxes

The proportional, progressive, and regressive features of taxes should be considered in devising or improving a tax system. Taxes should involve, at best, the defensible characteristic of being progressive; at worst, they should be proportional. Ideally, they should never be regressive, but in practice they often contain regressive features. All taxing devices should be constructed to reduce their regressive features as much as possible. High incomes should never pay lower rates than lower incomes, if it is assumed that the taxing system should be based on the ability-to-pay principle.

Tax Erosion Should Be Minimized

Tax erosion possibilities and provisions should be minimized or eliminated for every tax. For example, the deserving veteran and the worthy widow or homesteader may well deserve pecuniary benefits from government, but they should be provided by government in some form other than exclusion from paying property taxes. Erosion of the tax base, regardless of the worthiness of the cause, entails more problems than it solves. Special pleadings and other avenues of escape from paying taxes should be reduced to a more reasonable base by tighter laws and better enforcement practices. Estimates by some tax authorities of the amount of such tax base erosion have amounted to as high as one-fourth of the total real property value in the United States. The effect of such tax losses on schools and other government institutions that depend on tax revenues for their operation is obviously great.

A tax system should avoid or minimize preferential tax treatment sometimes offered to attract individuals or businesses to a state or community. The tax system should obviously not be oppressive to the point where it discourages new industry.

Taxpayer Convenience Is Important

It is generally believed that taxes should be direct rather than indirect. Taxpayers should know when they are paying a tax and should be able to do so as conveniently as possible. Paying hidden or indirect taxes, standing in long lines to pay taxes, and hearing about others who have escaped similar tax payments are examples of practices that demoralize many otherwise conscientious taxpayers. Fairness and courtesy in collecting taxes and in dealing with tax problems must characterize any successful taxation structure.

Collection Costs Should Be Low

To the extent possible, the taxes that are used should have a relatively low collection and administrative cost. Government institutions are interested in the amount of net revenue available to them rather than the gross amount of dollars collected. For example, the high cost of locating, assessing, and eventually collecting personal property taxes has been such that most of the states have either minimized or eliminated this potentially excellent source of tax revenue except in cases where the personal property can be easily identified. An example of identifiable personal property are vehicles and boats. In order for them to be used, they must be licensed. Before licensure, a personal property tax must be paid. Such a system provides considerable revenue to government.

Taxes and Services Should Be Visible

A common complaint of taxpayers is that they cannot see what value they are receiving for the taxes they pay. Too often, they appear to take the services of government for granted. It is a proper function of government and its institutions to make taxpayers aware that their payments are contributing to the important services of government that they have demanded. Theoretically, this makes them demand fewer of such services and increases their demand for operational efficiency.

Tax Shifting Should Be Minimized

The tax system of any unit of government should be such that tax-shifting possibilities are minimized. To the casual observer, it would seem that taxes are paid by the person on whom they are imposed and that it would be an easy matter to add taxes on any group in society or drop them. This would mean that if property owners or wage earners were not being taxed to their fair share of the burdens of government services, the correction could be made by additional taxes on property in the first case or by increased income taxes for the wage earners.

Shifting taxes to the point that the impact of a tax (point of tax imposition) is different from the incidence of that tax (person who finally pays the tax) makes taxation extremely delicate and difficult to regulate. In far too many instances, it may result in overtaxation of some groups and undertaxation of those groups who can successfully shift some or all of their tax burdens to others.

Earmarked Taxes Should Be Minimized

Dedicating tax revenues to a particular purpose should be avoided as much as possible. Such earmarking makes for too much rigidity in the budget practices of the receiving institution. Under such regulations, the minimum expenditure tends to become the maximum, thus depriving administrative boards of the flexibility so necessary in publicly controlled organizations. On the other hand, designating the use of some taxes based on the benefit principle is justifiable, as when a gasoline or motor fuels tax is earmarked for the maintenance of streets and highways.

Tax Structure Should Avoid Restrictions

Taxes sometimes have effects that may seriously change the economic practices of the individuals who pay them. The intent of taxation is to divert private funds into the public sector to produce necessary goods and services; it is not its purpose to alter the behavioral patterns of taxpayers.

Excessive taxes on certain commodities or services may destroy producers' competitive potential in the market or reduce their economic productivity. This violates a fundamental concept of taxation, for the tax on a desirable economic good should never be such that its more favored competitor has free access to a noncompetitive market.

The taxing pattern should not unduly restrict an individual in determining economic behavior in earning a living or in choosing the goods or services desired to satisfy needs or wants. Nor should the taxing system create a desire to restrict production of economic goods and services by individuals or organizations. In short, the taxing pattern should have the least possible negative effect on the living style of its contributors and the greatest possible positive effect in developing and achieving the goals of the agencies and institutions it is constructed to serve.

Criteria for Evaluating Tax Structure

McCann and Delon emphasized certain criteria for evaluating a tax system and the governmental structure necessary to administer it.[2] The characteristics they rated important in any tax system include efficiency, equity, adequacy, and adaptability. By *efficiency,* they referred to the structure for fiscal administration, which is best when operated with the least economic and social costs and the highest order of services for the money spent. They used the term *equity* to mean that the structure should provide the highest degree of fairness in the treatment of the individual citizen. The criterion of *adequacy* indicates that the system ought to provide enough funds to support the level of public service that is adopted for the particular government agency in question. By *adaptability,* they meant that any system that provides for the administration of a program of school finance ought to be adaptable to (1) changing economic conditions, (2) modified social demands for education, and (3) significant changes in education.

Taxpayers themselves are constantly evaluating the tax system to which they are responsible. They do not usually formally rate all the individual segments of the structure, but they have a practical way of making their opinions known concerning the total tax pattern. School administrators know all too well what will happen to their appeals for increased taxes when the public feels that they are already high enough. Citizen evaluation of the taxes required for government services often results in lost elections for bond and even current expenditure levy questions. Taxation cannot be pushed to a point beyond the limit of taxpayer acceptance. Benson referred to the "normal" as well as the "absolute" limits of taxation in the following:

> During any period of relative stability in a society, certain "normal" levels of taxation are extremely difficult to breach. Such conventional levels of taxation should never be confused with absolute limits. For any major tax instrument an absolute limit to yield does not in the practical sense exist. In a major social upheaval, such as a war, the conventional limits of taxation are likely to be discarded. After the period of upheaval has passed, the volume of nonemergency public services is more likely to expand and absorb the revenue than are tax rates to fall to their former levels.[3]

Taxes for Education

Some of the principal taxes used to transfer funds to the public sector include property, personal income, corporation income, sales, severance, and sumptuary taxes. Most of these are used to some degree in financing education in all of the 50 states. Others that are being considered but have not yet received general acceptance include site-value and value-added taxes. In many states, one popular revenue source that has the effect of transferring funds to the public sector is a lottery. Of course, there is continuing debate as to whether the concept is truly a tax or not. Many states still use the property tax and the sales tax as their most reliable and lucrative sources of revenue.

Property Tax

A property *(ad valorem)* tax is levied against the owner of real or personal property. *Real property* is not readily movable; it includes land, buildings, and improvements. It is usually classified as residential, industrial, agricultural, commercial, or unused (vacant). *Personal property* is movable; it consists of tangibles—such as machinery, livestock, crops, automobiles, and recreational vehicles—or intangibles—such as money, stocks, and bonds.

Property taxes were the first kinds of school taxes, and they still constitute almost the complete local tax revenue for schools. Property tax rates are usually expressed in mills per dollar of assessed valuation or dollars per hundred dollars of assessed valuation, though some states use a *tax rate* on market value. Facility in changing or interpreting different ways of stating tax rates is a valuable skill for anyone interested in comparing district budgets and taxing procedures in different states.

Historical Use

The states have based their local school revenue systems on a property tax. This policy seems to have been justified in its early history, for property ownership was considered to be a good measure of the wealth of people—especially before the advent of industrialization. For a long time, the property tax seemed to be reasonably satisfactory, and severe critics of it were relatively few. During the nineteenth century and much of the twentieth, the property tax at the local level proved to be a good and reliable source of revenue for operating schools and providing many other services of government.

The following characteristics are generally accepted as desirable traits of the property tax:

- Operates as a direct tax, with most people understanding its purpose
- Is easily collected by the regular machinery of state and county government
- Is regulated and controlled by local boards of education according to the provisions of state law
- Is almost impossible to avoid paying
- Is highly productive—mainstay of local governments for generations
- Is highly visible—provides direct linkage between services provided by local government and the cost of those services

Assessment Practices

Widespread unfairness exists in the assessment practices and in the adequacy of property tax administration in the various states. Unequal assessment practices are often found among the parcels of property within any one school district. It may be argued that such a condition simply means that a higher tax rate must be used to get the desired amount of revenue, but such an argument is of little value because the general public resists increased tax levy rates and state laws often prohibit them. Thus, a school board often finds itself powerless to overcome the revenue problems caused by underassessment.

The application of the *foundation program* concept of allocating state funds to local districts has created another problem involving underassessment. Fractional assessment was originally only a problem of inadequate revenue to the district concerned. Now, however, in financing the foundation program, underassessment becomes an advantage to that district because the decreased revenue from its own property taxation will be offset by the addition of an equal increase in state funds. This places a premium on underassessment and certainly is not fair to other districts that are fully assessed.

Assessment practices vary widely. Some states assess real property according to its classification or type, and some assess personal property at a different rate from real property. Tax authorities argue for assessment of property at 100 percent of its market value. It is difficult for assessors to keep assessment increases in line with changes in market value.

Present problems of property assessment are largely the result of the predominantly political system under which taxation laws have been made and administered. Elected county, town, or township assessors, often not particularly well qualified for their responsibilities, face the difficult problems of raising assessments because of inflation or actual improvements in the property, keeping assessments fair and equitable among all property owners, deciding on the relative worth of different kinds of property, and other equally difficult problems. Assessors, under this obsolete system of tax administration, have to weigh the value of fairness and equity against their desire to be reelected to their positions. Some states have developed strong tax commissions in an attempt to alleviate this problem. To develop statewide consistency using objective criteria, officials of state tax commissions audit various assessor practices. In Utah, for instance, the state is divided into five regions. Every five years, one region is evaluated—usually resulting in an increase of the assessed value of property and a possible increase in taxes paid or, more probably, a lowering of the tax levy. Through this procedure, more professional assessments are made.

In addition to the problem of fractional assessment, determining whether to use classified property assessments still remains in question. Should property used for one purpose be assessed differently from property used for another purpose? If so, how should relative rates be determined? What should be the relative assessment value placed on residential property as compared with income property? What is the proper relation of assessment to be applied to a corner business lot as compared to a similar lot in the middle of the block? These and many other unresolved assessment problems make the property tax system less equitable than would be expected.

Unfairness of the Property Tax

Even though the property tax has served the schools well for many years, it has always been under some criticism. Some features that were generally accepted as advantages early in its existence now seem to have changed to disadvantages. It is not the fair or equitable measure of taxpaying ability that it was years ago. People may now be inclined to invest their surplus earnings in personal property, some of which can escape taxation. The owner of land and buildings fares less well than a counterpart who puts wealth into more intangible assets that are less likely to be included in the normal taxation process. This makes the property tax somewhat regressive—that counters the ability-to-pay principle on which sound tax systems for financing education are based. Some states are reducing regressivity by using tax credit plans that provide property tax relief to low-income families, particularly to elderly people.

The finance problems encountered by most urban centers illustrate some of the deficiencies of the property tax. The typical city's tax base is eroded to a serious degree by the departure of the middle class, by pressure for desegregation, by old industries leaving and new ones becoming reluctant to locate there, and by the high percentage of tax-exempt property—the property of government, churches, schools, and welfare organizations. To complicate the condition further, cities have higher percentages of high-cost students to educate—disabled, disadvantaged, and minorities. They suffer, too, from pressures for higher salaries by strong unions, higher costs for building sites and construction, and higher costs for noneducational services, commonly referred to as *municipal overburden.*

The property tax is unfair to the person who must pay taxes on the full value of property of which he or she does not have complete ownership. This disparity is shown in a simple example. A and B both have tax responsibility for $50,000 worth of property, for which they each owe $2,000 in taxes. A owns the property; B is purchasing the property and has only $10,000 of equity in it. A pays only 4 percent of property wealth in taxes, whereas B pays 20 percent of equity in taxes. If wealth instead of property were the base of the tax, B would owe only $400 in taxes as compared to the $2,000 owed by A.

Other Criticisms of the Property Tax

Another serious defect of the property tax system arises from the limitations that states sometimes place on it. This has been achieved by state-imposed tax rate restrictions—legislated to protect beleaguered taxpayers. Many school districts are still struggling to raise adequate local revenues with state limitations on tax levies. In some states, the state legislature has imposed a tax rate limit, which can be increased to a higher limit only by a favorable vote of the people in the district. The practical effect is that few school districts are able to exceed the limit under which the school board is required to operate. Since all taxes are paid from income, the critics of the property tax and other taxes wonder why there should be any other tax than one on income. The local school board, however, is virtually powerless to control an income tax, but a property tax is comparatively easy for it to administer. Its use as a source of local revenue for schools has been alternately praised and condemned.

The condemnation of the property tax has reached new heights as a result of court decisions in some states, adverse opinions of the tax by many governmental leaders, the negative vote of people in referenda in some states, and actions by state legislators. Michigan, for example, abolished the property tax without knowing how schools were to be funded until future legislative sessions. The revolt has been directed particularly against the abuses and unfairness of the property tax. Described by many as the most oppressive and inequitable tax of all, it has lost much of its traditional popularity as a source of revenue for schools. Many segments of society—taxpayers, educators, and economists—have added their protests to its use and particularly to its extension.

Although the courts have not declared the property tax unconstitutional, they have said that disparities and inequalities exist. Thus, the structure of school finance laws is changing, and the years ahead may see other modifications in the use and administration of the property tax.

Circuit Breakers

A plan used to protect certain classes of individuals from excessive property tax burdens is the *circuit breaker.* It is designed to assure that the property taxes of people with low incomes will not exceed a stated portion or percent of their annual income, regardless of the value of their property or the tax in effect in their taxing unit.

As an illustration of the circuit breaker principle, a person with an annual taxable income of $6,000 who owns property assessed at $17,500 with a tax rate of 20 mills would ordinarily pay a property tax of $350. Under a circuit breaker provision requiring that not more than 4 percent of income be paid in property taxes, the calculated amount of taxes due ($350) would be reduced to $240. Although the person may be required to pay the $350 of property taxes (ostensibly to avoid erosion of the funds necessary to provide public services, including education), he or she would receive a tax refund or tax abatement for $110.

More complicated circuit breaker plans than the one described here are used by some states. There may be progressive percentage limits of income to be paid in property taxes with increases in annual income, or the state might be required to pay a certain percent of a person's property taxes. The main point, of course, is that the lower the income, the greater the percent of property tax relief.

Determination of "income" and how to apply the circuit breaker principle to welfare recipients and renters are some of the most difficult problems facing states that use this method of providing property tax relief.

Personal Property Taxes

The real property tax with all its objectionable features remains the backbone of the local school finance structure, but the personal property tax is an enigma in local tax theory and practice. On the surface, the personal property tax has many attractive characteristics and is used quite successfully in some states.

Today, much of the wealth of people is invested in personal property holdings such as stocks, bonds, mutual funds, and savings accounts. This vast pool of wealth is a potentially lucrative source of revenue to help defray the costs of government, but the problem of getting such property assessed and on the proper tax rolls has not been solved. Lack of information or evidence of ownership and almost complete reliance on owners to report the extent of their personal property assets—as well as ideological differences, that such a tax amounts to double taxation on what one has already earned—have served to defeat this form of taxation. This measure of the wealth and taxpaying ability of people is therefore minimized as a source of public school or other government revenue.

Income Tax

The personal income tax is usually a progressive tax levied on the income of a person received during the period of one year. It is the basis of the federal financial structure, but it is also used to a lesser degree by nearly all of the states. The relationship of income taxation and the ability-to-pay principle was pointed out by the National Education Association in the following:

> Long after Adam Smith's time, there developed in economics the principle that as more and more of any good is purchased, its utility to the consumer becomes less and less. The first pair of shoes, for example, is a necessity, the second very important, the third important, the fourth useful perhaps, and the fifth, sixth, and the like, successively less desirable. Application of this theory proved useful in explaining the fact that as the supply of a commodity increases, the price at which it is sold decreases. Then, as often

> happens, this principle, formulated for use in one area of human thought, was extended to others. It came to be believed that the law of declining utility also applied to money. Once that was accepted, the extension to taxation was thought to be clear. The rate, it was said, should increase in some ratio to the declining utility of the dollars of increased income. Thus the theory of ability to pay was born.[4]

Income taxes should include taxes on personal and on corporation incomes. The rationale justifying taxes on corporations is that otherwise individuals and organizations would incorporate to avoid taxation. "Corporation income taxation has been justified on the ability to pay, privilege or benefit, cost of service, state partnership, and control theories."[5] It is used in nearly all the states. It is responsive to economic and income changes, but it is sometimes complex in form and difficult to administer.

The real value of the personal income tax (and by implication the corporate tax as well) was emphasized in the following:

> A personal income tax is the essential added ingredient to erase the regressive effects of property and sales taxes. Moreover, the income tax is far more sensitive to economic growth than are property or sales taxes and therefore can help solve the state-local fiscal crisis. Once the initial political hurdle of enacting an income tax is overcome… future rate increases can be few and far between—economic growth takes over.[6]

There is a continual cry for a revamping and overhaul of income tax laws at both the national and state levels. Kotlikoff described the dilemma:

> We seemingly cannot decide whether our taxes are too high or too low, too progressive or too regressive, too replete with loopholes or too devoid of incentives. In addition, we seem unable to make up our minds whom—business or individuals—or what—income or consumption—we want to tax. And we cannot decide whether to tax all components of a given tax base, such as income from dividends and income from capital gains, at the same rate.[7]

Sales Tax

A sales tax is a levy imposed on the sale value of certain goods and services. It is generally imposed at the retail operation, rather than the wholesale. Sales tax rates are usually at the same level for all transactions, but if food and other necessities are subject to a sales tax, the tax becomes regressive. The sales tax is used most often at the state level of government, although it is sometimes used at the county and city levels. It produces large amounts of revenue, but its use without exclusion of necessary goods and services tends to overburden poor families.

The sales tax could become a fairer and more effective tax with certain improvements: (1) Auditors need to be sufficient in number and well trained, since they have much to do with the honesty and the efficiency of administration of the tax. (2) There should be strict enforcement by the states of tax collections and reporting. (3) Exemptions should be restricted to items of food and necessities. (4) A service or use tax should be included. (5) Loopholes in taxes on goods purchased in other states and on casual sales between individuals (such as on used cars) should be eliminated. (6) Tax collection should be simplified in those states that provide for more than one agency of government to collect tax revenues.

The value of the sales tax as a source of state revenue is indicated in the following:

> The general sales tax is the largest single state tax source, accounting for almost one-third of all state tax revenue. It is a broad-based tax and fairly sensitive to economic growth. But in one respect it is too broad based, for in most states it taxes food. Since low-income families spend a larger proportion of their budget on food than do high-income families, the tax on food introduces a strong element of regressivity.[8]

With the growth of e-commerce (the sale of products over the Internet), the sales tax may be altered extensively. The federal government has passed legislation exempting such items sold over the Internet from sales tax. The position of those who favor this exemption maintain that since the Internet is the future, it should not be burdened with taxation. They also maintain that the Internet is now overtaxed. The federal government presently claims a 3 percent excise tax on "telecommunication services," and some state and local governments impose an 18 percent fee and tax on Internet providers. The Supreme Court ruled that states cannot impose sales tax on some products from out-of-state catalog and mail-order houses. Internet providers have taken the position that this prohibition has been passed on to them.

Those who favor taxing sales on the Internet stress that it is unfair for businesses that have a physical presence (nexus) in a community to be required to pay sales tax while those who sell the same items over the Internet are exempted from paying sales tax. Opponents of the exemption declare that it may be the end of Main Street businesses or that these businesses will overwhelm state legislatures with a plea to "level the playing field" by enacting some business legislation that would create a confrontation between the statutes of the states and the federal legislation that created the exemption. Since it is generally the more affluent who have computers and purchase or use Internet services, it is argued that because poor people cannot participate in Internet sales, e-commerce adds to the regressive nature of the sales tax.

In the twenty-first century, this divergence of thought may reshape the sales tax system. In the year 2000, e-commerce was modest. Some assert that the over $5 million in lost state sales tax revenues annually is inconsequential. However, the purpose of the exemption is for e-commerce to grow and it is not known how portentous that growth will be. Perhaps it will be significant enough to revise the sales tax laws in the various states. All but five states have a sales tax: Alaska, Delaware, Montana, New Hampshire, and Oregon. States that have a sales tax raise about one-third of their revenue from this source; in some states, it is a much higher percentage. Overall, sales tax brought in revenue of nearly $200 billion when the twenty-first century began. These billions affect state financing of education dramatically, as a significant portion of education's financial support comes from state coffers.

Sumptuary Tax

A sumptuary tax is sometimes imposed by government, with the primary purpose of helping to regulate or control a certain activity or practice not deemed to be in the public interest. In this kind of tax, the collection of revenue is only a secondary purpose of the tax. For that reason, this revenue is usually comparatively small, and there is little room for expansion or extension of the tax. Such taxes provide a division of interest, as indicated by Corbally:

> In general, sumptuary taxation receives little support from tax theorists. The fact that sumptuary taxes do, in fact, produce revenue often leads to a situation in which a governmental unit in need of funds is tacitly encouraging an activity which tax legislation sought to discourage. Liquor taxes, for example, have the intent of "punishing" the user of an "immoral" commodity and yet the revenue from these taxes often becomes such an important source of funds that a government unit establishes attractive establishments for the retail sale of the heavily taxed product.[9]

The last decade saw the tobacco industry involved in several lawsuits, with individuals winning large sums of money with claims that smoking caused illness and death. Various states have participated in lawsuits that have caused the tobacco companies to pay large compensation for health care costs. In Maryland, the legislature allotted money to purchase textbooks for students in private schools from their $4.4 billion share of the cigarette settlement. Demonstrating the sumptuary principle, federal taxes have been increased on tobacco products with the intent of paying for programs that warn the young, in particular, of the harmful effects of using tobacco products.

Taxing goods and services that are generally held to be against the public interest is usually justifiable, but it can be overdone. Such sumptuary taxes should be used with caution and wisdom, to minimize the negative effects of taxing any particular segment of society for the benefit of another. Such controversial forms of taxation become highly discriminatory if used too extensively. Governmental control of socially unacceptable practices usually requires more than excessively high taxation to curb such activities.

Severance Tax

A *severance tax* is defined by the Department of Commerce as "taxes imposed distinctively on removal of natural products—e.g., oil, gas, other minerals, timber, fish, etc.—from land or water and measured by value or quantity of products removed or sold."[10] The tax is imposed at the time the mineral or other product is extracted (severed) from the earth. Levies are made for the privilege of removing a given commodity from the ground or from water. These levies are sometimes called *production, conservation,* or *mine* (or *mining*) *occupation* taxes. The concept originated as a way to collect revenues in lieu of property taxes, because it was difficult to determine an appropriate assessed valuation for mineral lands, water, and the commodities pro-

TABLE 5.1 Severance Tax Revenue as a Percent of State Tax Collections: 1998

Alaska	54.3	West Virginia	6.1
Wyoming	31.3	Montana	5.1
New Mexico	11.3	Texas	3.5
North Dakota	11.2	Kentucky	2.6
Louisiana	8.2	Kansas	1.5
Oklahoma	6.3	Alabama	1.2
	All states	**.08**	

Note: The table lists states obtaining at least 1.0 percent of their tax revenue from severance taxes in fiscal 1998. Tax revenue is defined according to Census Bureau procedures, which may not agree with those used by states.

Source: U.S. Department of Commerce, Bureau of Census, www.census.gov/govs/www/statetax.html scroll states.

duced from them. The justification for assessing a severance tax is that the mineral or resource is irreplaceable, and through a severance tax the state can, to some degree, advance its human resources with the loss from the natural resources. Also, some believe that charging a tax to extract natural resources may deter exploitive use of them and therefore enhance conservation and rational resource development.

A number of states have severance taxes on coal, oil, gas, oil shale, refined petroleum, liquid hydrocarbons, and minerals. The use of severance tax is varied. In 1998, the Bureau of the Census reported that 33 states imposed the tax with little or no revenue in 17 states, to 54.3 percent of total state tax revenue collected in Alaska. Though the revenue is significant in several states, the overall impact is only .08 percent of total tax revenue reported in all states[11] (see Table 5.1).

Excessive reliance on severance tax can cause serious fiscal problems in certain states. The fall of oil prices, for example, has at times greatly impacted tax revenues in Alaska, Oklahoma, Texas, and Louisiana, demonstrating the value of a broad tax base.

Potential New Taxes

The pressure that some courts applied on the states to achieve equity in financing education will likely be followed by similar legal pressure to provide equity in other functions of government. With the accompanying acceleration of criticism of the property tax will come increased emphasis on attempts to discover and use other kinds of taxes. This will require revision and upgrading of the taxing pattern of the states and local school districts. As the states assume more of the responsibility of financing education, the principal base for the taxing structure increases, and as limitations on property taxes are imposed, the importance of finding new revenue sources for financing education is going to become even more critical in the next decade.

Site-Value Tax

Recommendations for improving or replacing the present property tax system have taken many different forms. Some economists advocate a site-value (or land) tax. This is a tax on the actual value of the land, whether improved or not. As the land appreciates in value from investments or changes of any nature, the value of the tax revenue produced increases proportionately. Some other countries are using such a tax, and the plan has gained some support in this country, where the idea of property tax reform is old but untried.

Value-Added Tax

Another tax proposal that has received considerable support is a national value-added tax—popularly referred to as VAT. In its simplest form, it is a tax on the value of goods at each transaction level from production to consumption. The price of an economic good rises at every stage of its production and development. The farmer tilling the soil, sowing the seeds, harvesting the crop, delivering it to the miller, and the baker converting the grain into bread to be marketed is a process that involves numerous steps. A tax could be levied on the value added to the good or service at each stage of its production. Thus, a value-added tax is in reality a multiple sales tax.

A value-added tax was proposed in Congress a number of times in the last half of the twentieth century, but no law has ever been passed to utilize such a tax in this country. Its proponents point to its wide acceptance in the industrialized nations of Europe and the fact that it would be a single-rate tax with few exemptions. They admit that passage of such a tax would require reductions in other taxes in order to reduce the burden on taxpayers. Opponents of such a tax say that it would be regressive and would create a tax burden on poorer people if necessities, especially food items, were to be included. They say that in order to make the tax less regressive there would need to be so many exemptions that the tax would be difficult to administer. To offset its alleged unfairness, proposals have been made to give tax rebates to the poor who would be adversely affected. Some economists believe that a VAT would decrease spending and thus release more money for savings and investments. Others say that it would result in serious inflationary trends and would probably result in higher wages in the labor market.

Lotteries

One system of raising funds for state governments that began in 1964 in New Hampshire is the lottery. In 2000, lotteries were being used in 37 states and the District of Columbia. Lottery revenues have increased from $5.5 billion in 1983, to $20 billion in 1990, to nearly $40 billion in 2000. As the interest in lotteries expands, so does the debate as to whether lotteries are an appropriate way for government to raise revenue.

Thomas Jefferson called the lottery a "wonderful thing, it lays taxation only on the willing." Lotteries were used to support colonial soldiers and to build Harvard, Princeton, Yale, Dartmouth, Columbia, and William and Mary.[12] They have been used from time immemorial; the Bible describes property distributions made by the process. The term comes from the Germanic word *hleut,* which describes a dish or pebble that was cast to divide property, settle uncertainties, or decide disputes.[13] The concept has grown in popularity because legislators are looking for tax alternatives, and lotteries are popular with the public. People like to participate because there is always a hope that they can strike it rich. Tickets are inexpensive and the poor feel happy about giving money to the government if they stand a chance of reaping a large reward. This attitude is one of the major problems of the lottery as a revenue source. Though the question remains as to whether a lottery is a tax, the end result is that it is regressive in nature—those who can afford it least are paying the most. In a 1998 *Washington Post* article entitled "Low-Income Players Feed Lottery Cash Cow," which reported on several studies, it was indicated that low-income and less-educated players buy more lottery tickets than other groups. Minorities, also, are more likely to play the lottery. A greater share of poor players' income is consumed on lottery chances, making it a highly regressive tax.[14]

Basically, lotteries for schools are not as great a revenue source as publicity would suggest. In most states, contributions to state treasuries are less than 2 percent, with no state generating more than 5 percent. Note in Table 5.2 that the percent spent to raise $1.00 ranges from 17.7 cents in South Dakota to 42.6 cents in Oregon. The average cost in the United States is 33.1 cents. It is difficult to measure accurately what impact present lottery allocations have on education. Though 22 states have earmarked lottery revenues in part or in total for education, 8 states and the District of Columbia support the general fund that may be used for education purposes. When the general fund distributions are made, they are often reduced in proportion to increases that may come from the lottery, leaving education with no greater funding than before the lottery. Though teacher organizations will continue to negotiate for lottery money, school boards and administrative representatives need to be cautious about such uncertainties as projecting receipts from a lottery into a salary schedule.

Summing up the pros and cons of the lottery, Thomas and Webb offered the following:

> In each area where the lottery has been legalized, or is being considered, similar arguments pro and con have been proposed. The primary arguments supporting the lottery are: that it is a rather painless way to increase revenues; that the lottery is not a tax, or if it is a tax, it should be considered a "voluntary tax"; that the desire to gamble is inherent to man and that it is socially more desirable for gambling to be offered by the government than by organized crime. . . .
>
> Those who oppose the lottery contend that it is capable of increasing state revenues by only a small percent; that it is more costly to administer than other taxes; that it will not reduce the present level of taxation; that it is a regressive form of taxation; and that it does not substantially compete with illegal games. It also is argued that although people may have a strong desire to gamble, such activity undermines the moral fiber of society, and that government is obliged, at the very least, not to encourage gambling, either through sponsorship and solicitation, or by making it convenient.[15]

TABLE 5.2 State Lottery Revenues Transferred to Beneficiaries *(in millions)*

State	Use of Revenue	Net Revenue FY 1999	Percent Spent per Dollar Raised
Arizona	Transportation—Some Education	$ 80.5	30.0
California	Education	900.8	36.0
Colorado	Parks, Recreation, Conservation	98.7	27.6
Connecticut	General Fund	271.3	31.2
Delaware	General Fund	166.9	31.7
Florida	Public Education	802.8	36.8
Georgia	Education	646.7	31.8
Idaho	Public Schools and Buildings	20.5	22.8
Illinois	Common School Fund	540.0	35.4
Indiana	Capital Projects, School & Library Technology, Pensions	204.8	30.1
Iowa	General Fund	45.8	24.9
Kansas	Economic Development, Correctional	61.0	30.5
Kentucky	General Fund—Some Education	161.8	27.7
Louisiana	General Fund	106.9	37.0
Maine	General Fund for 275 Programs	41.3	28.6
Maryland	General Fund for Education, Health, Others	400.0	36.8
Massachusetts	Local Governments	809.1	24.0
Michigan	Public Education	622.3	35.2
Minnesota	General Fund—Environment	85.7	22.0
Missouri	Education	154.8	30.2
Montana	General Fund	6.8	22.7
Nebraska	Education, Environment	18.3	25.3
New Hampshire	Education	64.0	32.1
New Jersey	Education and Institutions	652.0	39.3
New Mexico	Education	19.7	22.1
New York	Education	1,413.3	38.2
Ohio	Education	696.2	32.5
Oregon	Education, Economic Development	310.5	42.6
Pennsylvania	Aging-Related Services	668.2	40.0
Rhode Island	General Fund, Education	133.4	18.0
South Dakota	General Fund—Some Education	97.0	17.7
Texas	Education	875.0	34.0
Vermont	General Fund—Some Education	19.1	27.1
Virginia	General Fund—Some Education	321.4	34.4
Washington	General Fund—Some Education	112.9	23.9
West Virginia	Education and Others	119.3	30.4
Wisconsin	Property Tax Relief	134.9	31.5
District of Columbia	General Fund	67.5	32.3
United States		**$11,949.44**	**33.1**

Note: There are no lotteries in the following states: Alabama, Alaska, Arkansas, Hawaii, Mississippi, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, Tennessee, Utah, Wyoming.

Source: Profits Transferred to Beneficiaries, NASPL, http://www.naspl.org/profit/98.html, pp. 1–3.

Private Foundations

In an effort to meet the demands of tighter budgets, school districts are reaching out to the private sector to develop new revenue sources. Some districts have established private foundations for the purpose of raising funds for local schools. Only a few foundations existed prior to 1980. The greatest effort came from districts in California that were impacted when a property tax rollback initiative was passed by the voters. Districts sought funds from outside sources and school district foundations were developed. To provide tax benefits for donors, most foundations have been established as nonprofit corporations. In so doing, they become separate entities with separate boards and out of the jurisdiction of local boards of education. True to a purpose, most of the foundations provide support to education endeavors. In the year 2000, there were over 400 education foundations in California, with most participating in the California Consortium of Education Foundations, which was established as a nonprofit organization "dedicated to improving public education…serving as spokesperson for California's education foundation movement…and to help focus community services in support of schools."[16]

In one state, the legislature has provided a minimal amount of matching money in its Incentive for Excellence program, which provides funds for districts that are able to match the revenue from the private sector with the following guidelines:

- A school district shall use its allocation to promote a strong partnership between public education and private enterprise, to seek additional financial support from the business community, and to enhance its educational excellence.
- School districts are encouraged under this program to develop projects that rely on matching private and public monies to promote educational excellence.
- Districts are required to designate district leadership, and organize an ongoing structure such as an advisory board or education foundation.[17]

The foundation programs raise some school finance issues: (1) What role should school officials play in the foundation and in the determination of how money should be expended? (2) Will states reduce their aid to school systems that have successful foundations? (3) Since affluent school systems are more likely to have successful foundations, will private money damage efforts to make the quality of education more uniform among rich and poor communities?[18]

School-Business Partnerships

The thrust for school-business partnerships is closely related to the foundation movement. The natural evolvement of seeking revenues extended to asking business and industry leaders for contributions to assist schools in meeting budget needs and extending programs. However, simultaneously the business-education relationship was emerging on its own as business executives felt an urgency to coordinate efforts with educators to meet the needs of developing a work force that could compete in a global marketplace. Education-related partnerships are big business. From 1984 to 1988, there was an increase from 40,000 to 140,000, and by April 1991, the National Association of Partners in Education estimated the number to be over 200,000.[19] Partnerships can vary greatly in scope and are as diverse as the companies involved. Following are types of partnerships and their level of impact on the educational system:

1. *Partnerships in special services.* Focuses on student support activities and on programs that encompass fund-raising, scholarships and donation of equipment
2. *Partnerships in classrooms.* Involves activities such as mentoring, tutoring of students and extra-curricular activities
3. *Partnerships in professional development.* Sponsors conferences, workshops and in-service training
4. *Partnerships in management.* Provides management support and business expertise in strategic planning, goal setting and school building improvement
5. *Partnerships in systemic educational improvement.* Involves community compacts, alliance consortia and technical assistance
6. *Partnerships in policy.* Involves national or state task forces, private industry councils, school boards and city councils[20]

Business and industry interests are not completely altruistic. They have an agenda. However, the concept that makes the partnership function is that educators are striving for the same goal—to produce students who are prepared for the future. Concerns are that the schools are not teaching relevant subject matter for jobs that require special training and skills. Critics claim that education is not staying in touch with societal and workplace needs. They assert that students are being trained with twentieth-century methods that will not meet the demands of a world economy.

The literature contains many examples of companies that have been generous with both money and in-kind contributions to schools. Though much of the annual support has gone to higher education, the trend is changing as business leaders are recognizing the necessity of supporting education programs that start at an earlier age.

There are some concerns in the education arena that the schools are willing to accept assistance in areas that may not be in the best interest of students. Channel 1 is an example of this. The debate is whether taking valuable classroom time for a short news program that also provides the producers a captive audience for commercials is a worthwhile trade-off for television sets in each classroom.

A spokesperson for the National Association of Partners in Education stated that solutions need to be locally based; there is not one solution that is going to be applicable to every community. Therefore, the partnerships need to be at the local district level where those who live in the community can work toward defining and solving the problems.[21] This raises some concerns. After reviewing various partnership studies, Pautler noted that many districts in the United States are in rural areas far from major businesses and such partnerships may be difficult to arrange.[22]

The collaboration of business with education has never been greater. As school administrators look to business and industry as an additional funding source to supplement the education budget, business and industrial leaders who support education with corporate dollars will be expecting educators to produce a student who is literate, prepared, and already employable when graduating from high school. Accountability and results are expected when business and industry "foot the bill."

Summary

Taxation is a system of transferring money from the private sector to the public sector of the economy. The public institutions of the nation are almost completely dependent on this method of obtaining funds for their operation. Taxation is fairer and more dependable for financing education than the previously used rate bills, tuition charges, and student fees.

A good tax system should include the following features: (1) There should be coordination among all levels of government with little or no duplication of taxes. (2) All citizens should pay some tax. (3) Taxpayers should be left in the same relative financial position with each other after taxes are paid. (4) The tax should bring a reasonable yield, not be merely a nuisance tax. (5) Tax erosion should be minimal, regardless of the benefits government owes to deserving citizens. (6) Tax collection should be simple and convenient for taxpayers and of little cost to the collectors. (7) The tax should be levied on the person or household who pays it—the shifting of the tax should be minimized. (8) The payment of the tax should not cause a major change in the economic practice or vocation of the taxpayer.

The property tax is becoming less and less fair as people increasingly invest their surplus monies in other forms of wealth. The unfairness of a property tax is evident in many ways, such as unequal assessment practices, taxation without relationship to net ownership of the property being taxed, unequal tax bases per pupil to be educated in various kinds of school districts, and lack of a direct relationship between the taxes owed and the amount of wealth or income of the person or household being taxed. Taxpayer resistance to property taxes has increased greatly.

Circuit breakers were adopted by most states to relieve elderly and low-income people of part of their property tax burden. Legal steps were taken in a number of states to restrict the use of the property tax, and some states passed legislation restricting government expenditures.

Personal property taxes are difficult to collect, and their use has proven to be somewhat ineffective. Income taxes are probably the most equitable of all taxes, but their use at the local level is limited for two major reasons: (1) They are already used to a high degree by the federal government and to a limited degree by most states. (2) It is relatively easy for resisting taxpayers to find loopholes to avoid such taxes.

The income tax is probably the fairest of all taxes. In practice, it is less than ideal as a revenue-collecting measure. It is usually a progressive tax and should include personal and corporate income. There is a continual cry for overhaul of the income tax laws.

Sales taxes are effective at the state level but are not readily manageable at the local level, especially in small school districts. Sales taxes are regressive when food items and other necessities are taxed, since low-income families generally spend a higher percentage of their income on necessities than the more affluent do. E-commerce (Internet purchases) has spurred a sales tax debate.

Potential new taxes include site-value and value-added taxes, which have a history of successful use in some foreign countries. Congress has attempted unsuccessfully to introduce the use of some new kinds of taxes several times in the last few years.

Though the concept is very old, lotteries have become popular in some states as a source of revenue for the schools. Since lotteries generate only a small percentage of total state allocations, school administrators need to be concerned about relying on this source because of the uncertainty of receipts. The debate will continue on whether a lottery is truly a tax. In any case, it is regressive in nature, since most buyers of tickets are among the members of society who can least afford them. The pros and cons will continue to be debated as more states consider the possibilities of instituting lotteries to raise money for state budgets.

Private foundations may be a source of revenue for school districts. However, the collaborative effort of the private and public sectors working for education may have a greater impact than the actual funds raised through foundations.

School-business partnerships have never been greater, as business and industry leaders are becoming more concerned with developing a work force that can compete in a global marketplace. The collaborative efforts will require revenues from business and industry and accountability from educators.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *rate bills, fees, tuition, tax erosion, tax shifting, ad valorem, real property, personal property, income tax, sales tax, sumptuary tax, severance tax, site-value tax, value-added tax, lottery, tax rate, tax base.*
2. For taxation purposes, property is usually assessed at a fractional part of its sale (market) value. Revenues are determined by applying tax rates against these assessed values. Since states use different percentages of sale value in calculating assessed value, comparisons between states require the determination of sale values and true tax rates.

(assessed value) (tax rate) = (sale value) (true tax rate)
(AV) (tr) = (SV) (ttr)

Thus, if property valued at $100,000 and assessed at $40,000 has a tax rate (sometimes called apparent tax rate) of 40 mills, it would have a true tax rate of 16 mills.

If the assessed value of a piece of property is 25 percent of its sale value, you know immediately that its true tax rate is what percent of its apparent tax rate?

3. __________ percent

If a piece of property is assessed at $12,675 under a fractional practice of 65 percent, what is the sale value of the property?

4. ______________

If a district requires revenue of $1,487,424 and the sale value of all taxable property is $106,000,000 (to be assessed at 60 percent), what will the tax rate be in dollars per $100 of assessed valuation?
5. ______ /$100 (AV)

In problems 3 above, what is the true tax rate in mills?
6. __________ mills

Mr. Smith has a house assessed at $51,000 (60 percent of sale value). His tax is $3.50 per $100 of AV. Mrs. Jones has a house assessed at $35,550 (45 percent of sale value). Her tax rate is 36.2 mills. From the following information, answer the following:

Who pays the greater tax?
7. ______________

How much greater?
8. ______________

Using the tax rate and the assessment practices of Mr. Smith's district, how much tax would Mrs. Jones pay?
9. ______________

Ms. Brown has a house assessed at $55,800 (62 percent of sale value). Her tax rate is $3.25 per $100 of assessed valuation. Mr. Barnes has a house assessed at $42,720 (48 percent of sale value). His tax rate is $32.75 per $1,000 (AV).

Who pays the greater tax?
10. ______________

How much greater?
11. ______________

Using the tax rate and the assessment practices of Ms. Brown's district, how much tax would Mr. Barnes pay?
12. ______________

School District A has an assessed valuation of taxable property of $49,410,000. It has 5,400 public school pupils. School District B has an assessed valuation of taxable property of $86,260,000 and 9,500 public school pupils.

Which district has the greater ability to support its schools?
13. ______________

In problem 13, how much greater?
14. ______________

Jane Miller has a house assessed at $45,000 (45 percent of its sale value). Her tax rate is $4.20 per $100 of AV. Tom Gale has a house assessed at $55,000 (50 percent of sale value). His tax rate is 35.25 mills.

Who pays the greater tax?
15. ______________

How much greater?
16. ______________

If both houses were taxed on full sale value with a true tax rate of 23.3 mills, who would pay the greater tax?
17. ______________

How much greater?
18. ______________

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER 6

Eroding Local Control

Many states are taking responsibility for funding education in order to promote systemic reform initiatives. Local districts are being transformed and their control weakened by the state. Educational policy makers need to determine what, in the long run, is best for students.

—Marilyn Hirth, 2001

State responsibility for education and local control of the schools have operated with remarkable success throughout the history of the nation. The constantly increasing financial support of local school districts by the various states in recent years, with increases in state controls and standards, has resulted in a challenge to the traditional concept of local control of education.

Diminishing Local Control

Citizens of the United States typically view the gradual change from local to state control of the public schools with some degree of alarm, yet they know that such a change is inevitable. They see local control as a frontier where people in small towns and neighborhoods can make their voices heard in determining who shall be educated and by what process. They feel threatened by nationwide trends toward centralization and standardization. They value their importance as citizens in the selection of school board members, in voting for or against levies and bond issues, and in their right to evaluate the accomplishments of their schools.

At the same time, Americans feel a degree of helplessness and inability to influence state legislatures; they envision the federal government as being far beyond their horizon of influence. Consequently, they tend to hold firmly to their commitment to local control of education. They accept its accomplishments with pride when it excels and fault themselves and their community when it falls short or fails to compare favorably with schools elsewhere. In their pride for school and community, they often lose sight of the high price that must be paid for maintaining small districts and small attendance areas. In their minds, it is a price worth paying. They tend to evaluate the schools' successes and failures in terms of what the situation was when they were in school and often have closed minds with regard to the potential virtues of school reorganization and consolidation.

As states are playing a greater role in financing public schools, they are assuming firmer control. The adage "He who holds the purse strings holds the power" is apparent as state governments continue to provide a large part of budgets for operating public schools. The state share of revenues for public elementary and secondary schools grew steadily for many decades, but this trend began to reverse in the late 1980s. Between 1987 and 1997, the state share declined from 49.7 percent of all revenues to 48.0 percent, while the local share rose from 43.9 percent to 45.4 percent. The federal share was 6.6 percent in 1997, after fluctuating slightly.[1] The education and equal protection clauses of the various state constitutions have had an influence on how education is funded and have placed more responsibility on state legislators to provide additional financial aid to local education agencies. Courts in many states have had an impact when they have instructed state leaders to provide more equitable financing for local districts from state resources. These and other factors are reasons why state governments are generally considered to be the institutions in the twenty-first century that will be required to meet the expanding financial needs of the schools.

Decreasing Rural Influence on Education

In the first half of the twentieth century of U.S. legislative action, legislators representing rural areas have often controlled or dominated the lawmaking bodies of the states. Disproportionate representation in at least one branch of the legislature was usually

TABLE 6.1 Decrease in Number of One-Teacher Schools

		One-Teacher Schools	
School Year	**All Public Schools**	*Number*	*Percent of All Schools*
1947–48	172,244	75,096	43.6
1953–54	136,512	42,865	31.4
1957–58	120,953	25,341	21.0
1963–64	104,015	9,895	9.5
1973–74	90,976	1,365	1.5
1982–83	84,740	798	0.9
1988–89	82,081	583	0.7
1992–93	84,501	430	0.5
1993–94	85,393	442	0.5
1994–95	86,221	458	0.5
1995–96	87,125	474	0.5
1996–97	88,223	487	0.5
1997–98	89,508	476	0.5
1998–99	90,874	476 (Est.)	0.5

Source: Digest of Education Statistics, 1999, U.S. Department of Education, National Center for Education Statistics, Office of Educational Research and Improvement (NCES 2000333), June 2000.

given to small towns, counties, and sparsely populated areas, as compared with the representation given to large towns, cities, and metropolitan areas. Since property taxes bore a major portion of school costs, rural legislators and rural school board members tended to be reluctant to provide the funds necessary for optimum school programs. The reapportionment of the membership of state legislatures in the 1960s to meet court demands of "one man–one vote" reduced the relative legislative power of rural areas and increased that of cities.

Also, as the United States has become less of an agrarian society, and people have moved away from rural areas, the number of one-teacher schools decreased significantly over the years (see Table 6.1).[1]

Decreasing Urban Economic Advantages

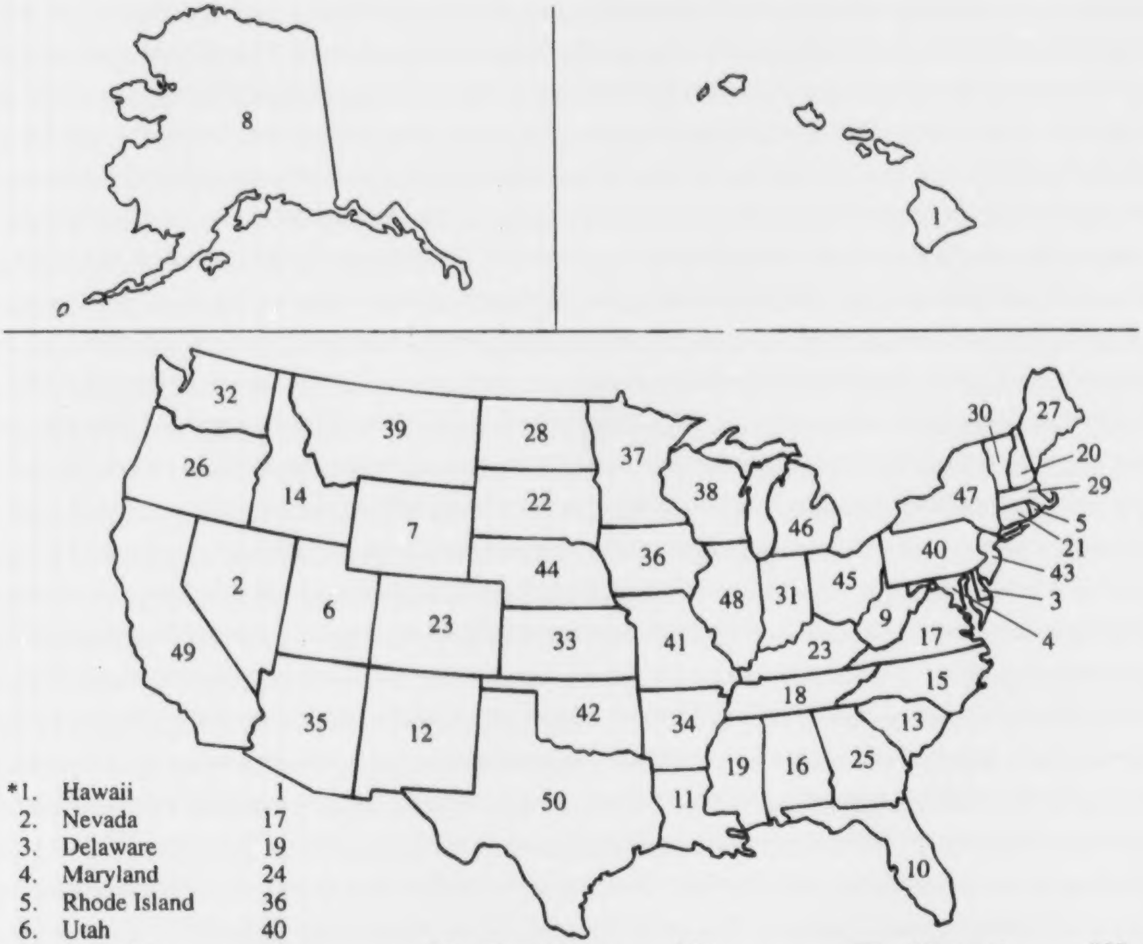
Although cities have gained in their representation in legislative bodies, they have lost their economic advantage in the operation of schools. When property taxes were the main source of school revenue and state allocations were minimal, city school districts usually enjoyed certain revenue advantages. City school boards tended to be less vocal in their opposition to property tax increases for education than their rural counterparts. As a consequence, city schools generally outdid their rural neighbors in providing good education. City schools became the leaders in administrative efficiency and in student achievement.

In recent years, however, the pattern has changed. Gradual changes in the socioeconomic makeup of larger cities, with consistent emigration of the more affluent to suburbia, have resulted in cities losing much of their previous financial advantage. Legislative bodies that once faced the formidable problem of financing small rural schools equitably now face a larger problem in providing adequate and equitable revenue for urban districts.

School Districts: Basic Administrative Units

The local school district is the basic administrative unit for the operation of public schools in this country. Each district has a governing board, usually referred to as the *school board,* and a chief administrative officer, usually called the *superintendent of schools.* The size, characteristics, and authority of school districts vary greatly from state to state and even within the same state. In most of the states, school districts operate as independent governmental units. In about 40 percent of the states, however, school districts are dependent on some other unit of government for certain aspects of their operation—usually budgetary operations.

The number of school districts in the country reached the staggering total of 127,649 in 1932. Fortunately, much progress has been made in reducing the number since that time. As might be expected, reorganization of school districts proceeded at a snail's pace at first. However, improvements in the laws providing for such mergers did much to accelerate the process. There were 117,108 school districts in 1940, 83,178 in 1950, 40,520 in 1960, and only 17,995 in 1970—a reduction of about 100,000 school districts in a 30-year period. In 2000, there were 14,498 school districts in the United



*1.	Hawaii	1
2.	Nevada	17
3.	Delaware	19
4.	Maryland	24
5.	Rhode Island	36
6.	Utah	40
7.	Wyoming	48
8.	Alaska	53
9.	West Virginia	55
10.	Florida	67
11.	Louisiana	70
12.	New Mexico	89
13.	South Carolina	90
14.	Idaho	112
15.	North Carolina	120
16.	Alabama	128
17.	Virginia	132
18.	Tennessee	137
19.	Mississippi	152
20.	New Hampshire	165
21.	Connecticut	166
22.	South Dakota	173
23.	Colorado	176
	Kentucky	176
25.	Georgia	180
26.	Oregon	197
27.	Maine	224
28.	North Dakota	229
29.	Massachusetts	244
30.	Vermont	248
31.	Indiana	292
32.	Washington	296
33.	Kansas	304
34.	Arkansas	310
35.	Arizona	353
36.	Iowa	375
37.	Minnesota	387
38.	Wisconsin	426
39.	Montana	456
40.	Pennsylvania	500
41.	Missouri	523
42.	Oklahoma	547
43.	New Jersey	581
44.	Nebraska	596
45.	Ohio	625
46.	Michigan	687
47.	New York	705
48.	Illinois	936
49.	California	988
50.	Texas	1,042
	United States	**14,498**

* District of Columbia also has 1 school district.

FIGURE 6.1 Number of Basic Administrative Units (regular school districts including supervisory union components): 1998–99

Source: U.S. Department of Education, National Center for Education Statistics, and Common Core of Data (prepared June 2000).

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States. Texas continues to have more than 1,000 independent school districts; 10 other states still have 500 or more (see Figure 6.1).

In the past, most of the problems of school district reorganization were concerned with combining small districts into larger ones to improve the educational opportunities for children and at the same time provide a broad tax base, reduce variations in the taxpaying ability of districts, and provide some degree of stabilization, equity, and satisfactory management of funds. Recently, however, the problem of decreasing the sizes of some large metropolitan districts or reorganizing them by allowing other public-sector agencies, such as universities, and private for-profit companies to sponsor public schools has emerged. Such competition could bring diversity within urban schools and pressure ineffective schools to change.

The traditional argument that large school districts allow greater economy in the operation of schools can easily be overemphasized. Quite often, the funds saved in some aspects of the programs are spent to enrich or extend educational services—one of the main reasons for combining the districts in the first place. The argument that reorganization will save educational dollars, which may appeal to some taxpayers as a possibility for tax relief or reduction, often falls of its own weight. Instead of saving school tax money, reorganization usually results in a better school program, with little if any reduction in cost. However, reduction in the number of school districts will usually result in some subtle, but important and relevant, improvements in financing education:

1. The range in local ability to pay for education in the wealthiest as compared with the poorest district (as measured by the assessed value of taxable property per pupil to be educated) will be reduced.
2. State support formulas can be simplified, and greater equality of educational opportunity for all school pupils can result as the number and kinds of administrative units are reduced.
3. Larger school districts make possible greater efficiency in the expenditure of funds (but do not guarantee it) in nearly all categories of the maintenance and operation of schools, but particularly in administration, instruction of pupils, and purchase of supplies and equipment.

Each state has been free to determine the kind and number of local school units or districts that can be operated within its own boundaries. The number of such districts within a state varies from 1,042 in Texas to 1 in Hawaii.

The arguments concerning relative costs and quality of education in large, medium, and small school districts are still being debated in some parts of this country. Most informed students of educational administration recognize some relation between the costs of education and the organizational pattern of school districts the state operates.

Further, large school districts are under considerable scrutiny because many feel they have, in fact, become too big, too bureaucratic, too unwieldy, too unmanageable, and too far removed from the classroom. For example, in fiscal year 2001, the Los Angeles School District, one of the nation's largest, restructured its bulky district into 11 "local school districts." School district leaders there hope that by "giving greater decision making authority to the 'local district' leaders that instead of jumping through hoops...problems and issues can be solved on the spot...which would enable their academic goals to be achieved especially in improving reading district wide...and [to] restore public confidence in the sluggish system." The optimum size of a district has long been an issue in the education world. It is not in this context that discussion of the issue is included but the size of school districts do have a financial impact and needs to be considered when financial decisions are being made.[2]

The following are some principles concerning the size of school districts that have become accepted as a result of the experience of the states over the years:

1. Maintaining a small school district with only one or two small attendance areas is indefensible in terms of the aims and objectives of present-day education. This does not rule out the obvious fact that some small schools and districts will always be needed in sparsely populated areas of this country.
2. Small school districts are comparatively inefficient and often represent a waste of tax funds.
3. Large school districts and attendance areas operating with adequate revenue provide the potential for an efficient and effective school system with a high-quality educational product, but do not and cannot guarantee it.
4. Although the admitted advantages of large school districts over smaller ones are important and can usually be documented, decisions over such matters may be made on the basis of the emotions of the people involved rather than the educational benefits that the pupils will derive.
5. Even though the nation has too many small school districts, it also has some districts and attendance areas that are too large and unmanageable. The problem of decentralization must be faced in some districts at the same time that centralization is being emphasized in many other areas.

Some principles concerning small schools include:

1. Small schools suffer from curriculum limitations, even if the wealth of the district makes it financially possible to employ proportionately more and better-trained school staff members.
2. Small schools are often unable to attract the best teachers, regardless of the wealth or the available revenues in those districts.
3. Small schools suffer from lack of special services, such as health, psychological, and counseling programs. No amount of revenue can provide these services if there are not enough pupils to warrant them.
4. Small attendance areas may be comparatively inefficient and often represent a waste of tax funds.

Over the past several decades, the trend to consolidate small schools has brought a large decline in the total number of public schools in the United States. In 1930, there were more than 262,000 public schools, compared with around 90,000 in 2000. This number has grown in recent years, with an increase of about 5,000 schools between 1991 and 1998.[3] This growth has raised an issue about the advantages and disadvantages of small and large schools. More than one in ten of the nation's high schools have enrollments of 1,500 or more, according to the National Center of Educational Statistics. A school that has an operating unit cost per student caused by underutilization of staff and curriculum, which exceeds the average operating unit per student cost in the state, is considered too small. Bigger schools, some educators maintain, have not necessarily made for better achievement. This concern has caught the attention of Congress, which, in 2000, "called for a $45 million dollar program to create programs and make physical changes at large high schools so students attending them have a more intimate experience."[4] "Smaller is better," said Rep. Baron Hill (Democrat from Indiana), who added that smaller schools "create this feeling that kids know their teachers…and that they feel connected again."[5] Educators say, "Large high schools can reduce safety, hurt student achievement and make students feel isolated…. Problems range from crowded hallways to students with learning difficulties not getting the help they need…. The most difficult aspect of a large school is often kids who are middle of the road cannot feel a connection…they don't establish an adult relationship."[6]

Lunenburg and Orstein maintained that, in the future, "emphasis will be placed on smaller schools because they are cheaper than larger schools. Smaller schools usually mean not only more efficient use of space but also fewer administrators, which results in lower costs."[7] They contend also that a "school is too large when a loss of personal or school identity among students occurs and when "students are unable to fully participate in social and athletic activities or have difficulty interacting among themselves or feel they do not belong to the student body or school in general. There is a sense of aimlessness, isolation even despair among a large number of students which in turn causes other social and psychological problems (such as delinquency, drugs and cults) which are more overt in nature."[8]

Financially the advantages of reorganization of school districts outweigh the disadvantages, but there is great resistance from the public when states attempt to impose consolidation on local entities. An example of such resistance occurred in recent years in Illinois when the legislature developed an educational reform package that included an effort to reduce the number of school districts. At the time, Illinois had 1,013 districts, the third highest in the nation. The plan was "to eliminate all unit districts with fewer than 1,500 students, all elementary districts with fewer than 1,000 students, all high school districts with fewer than 500 students."[9] Resistance to the proposal immediately arose; small, rural, downstate localities and high-tax enclaves in suburban Chicago were particularly opposed to the prospects of eliminating the small districts. As a result, the General Assembly passed a bill that delayed the reorganization plan and "removed the minimum enrollment standards, thereby effectively ending any state pressure for reorganization and consolidation."[10] By the year 2000, the number of districts had been reduced by 77—from 1,013 to 936.

The Administration of Local School Districts

Although few people question that the role of local school boards in controlling the operation and financing of schools has changed in the last few years, there is no complete agreement about the causes of this change. As the federal government has provided some financial assistance to schools, its influence over local districts has increased. As the states have increased state funds to school districts and also increased curriculum requirements, certification requirements, levy limitations, and other related requirements, the powers and duties of local school boards have been correspondingly eroded and usurped.

The politics of education has shifted with a rotation about a state-federal axis rather than a local-state axis. Thus, in the opinion of many, the traditional philosophy and practice of localism has become suspect and is in need of change. In an interview with the authors, Ernest T. Boyer observed, "I think for the first time America is more preoccupied with national results than local school control." Chester Finn, a proponent for less local control, asserted that there already has been a change in practice but theory has yet to be altered. He stated:

> So deeply ingrained in our consciousness is the idea of "local control of education" that few Americans even think about it anymore. Like "separation of church and state," "civilian control of the military," and "equality of opportunity," the phrase rolls off the tongue without even engaging the mind. To suggest that it may be obsolete or harmful is like hinting that Mom's apple pie is laced with arsenic.
>
> The time has come, however, to subject "local control" as we know it to closer scrutiny. It is one of those 19th century school-governance and -finance arrangements that may not serve the country well at the dawn of the...millennium. It is enshrined in neither the Ten Commandments nor the Constitution. It could, therefore, be changed. Indeed, it has already been changing in practice even though we have not yet revamped the theory.[11]

Finn stressed that the governance of schools is antiquated and ought to be abolished. "Boards are not just superfluous, they are also dysfunctional."[12] Taking issue with that point of view, Thomas Shannon, Executive Director of the National School Boards Association, stressed a more traditional concept of local control and expressed the importance of the local board of education:

> Local school-board governance consists of several indispensable functions. The board translates federal law and integrates state mandates into local policy action; tests proposed education initiatives against the back drop of community need and sentiment; evaluates on behalf of the entire community the educational program; monitors the work of the superintendent and administrative staff who implement board policy; serves as the final appellate body short of the court system on appeals of citizens and school employees from administrative decisions; cooperatively deals (both as a board and as individual board members) with citizens in school matters in the tradition of responsive, responsible representative governance; and interacts with federal, state, and other local-government entities to ensure that the schools are given the attention they deserve. Each of these functions is so critical that they have given rise to the rubric, "If community school boards didn't exist, we should have to invent them."[13]

Shannon contested that "state legislatures have in fact adopted many oppressive statutes over the years that ruin the type of local school environment needed for innovation [and that] micromanagement by statute hinders local initiative and stifles local imagination by undercutting boards' authority to act as local policymakers."[14]

Fuhrman and Elmore[15] did extensive research on understanding local control and the degree of change required to conform with new state policies and the capacity to make the required changes. They concluded, among other findings, that "districts often leverage state policies by using local influence networks to reinforce local political agenda and to engage in local policy entrepreneurship. The result is often that the local effects of state policy are greater than those one would predict on the basis of state capacity and that localities often gain influence rather than lose it." Following are other conclusions from the study:

> Conventional notions of state and local control in education need to be modified in light of experience and research related to recent state-level reform. The most important modification is to move away from simple zero-sum conceptions of state-local relations, in which each increment of state policy results in an equal and opposite decrease in local control, and toward a conception that allows for the possibility that both state and local control can increase as a result of state policymaking and that recognizes that the exact effect of changes in state policy on state-local relationships is more a function of how states and localities mobilize and use political influence than of state control of local decision.
>
> New conceptions of state-local relations must take account of a range of factors not included in the zero-sum model. Among these factors are the following:
>
> - The volume of state policymaking is not a good indicator of the degree of state control. Rather, the content of state policy, the capacity of states to implement that policy, the degree of variability in local district capacity, and the degree of mobilization of state and local public and professional opinion are key factors in sorting out the relative influence of states and localities.
> - Examining the relationship between states and districts is not, by itself, a particularly useful way to characterize state-local relations. Districts are, in fact, multilevel systems, and state influence depends on how state and local priorities are orchestrated around schools and classrooms.[16]

Some of the typical problems faced by local boards of education—including problems related to separation of church and state, providing equal educational opportunities for all students, including minority groups, and control of dissidents and incorrigibles—have been accentuated by a society that is constantly demanding additional services from government. On the other hand, boards of education find themselves subservient to new directives and the new rationale of the state and federal governments that attend the programs to alleviate poverty, extend educational opportunity, and push forward the frontier of knowledge. All these conditions, plus the proposal that seems to be gaining momentum that the states administer the collection and allocation of all funds for education, may seriously curtail the importance of local boards of education and the need for them.

Local Control by Contract

In recent developments, some local boards of education have been willing to turn the operation of the schools over to private, for-profit companies. Such an approach is being seen by some critics as boards absolving themselves of responsibility and further eroding local control. The concept of *privatization* is causing much debate in educational administration. Private companies are edging into the over $300 billion business of secondary and elementary education with the intent of producing revenue for stockholders. Where entrepreneurs are promising to reach achievement goals, provide better maintenance of schools, and operate school lunch programs and transportation services for less and with more efficiency is causing some school boards to explore and adopt the private management of public schools approach.

Areas such as school lunch, maintenance, and transportation have been operated by private sources for some time, but in the field of instruction and management of the schools, the concept has developed only during the last decade. One of the most visible private, for-profit companies is Edison Schools, Inc., which in February 2000 won its first contract to manage an entire school district.[17] New York City–based Edison has managed 79 traditional public and charter schools, serving more than 38,000 students.[18] Edison is the largest for-profit manager of public schools in the nation and has never been fired.[19] Typical of the activities of Edison are: in Wichita, the school board continued for five years Edison's management of four schools; in the Boston Renaissance Charter School, one of the nation's largest charter schools, the school board renewed the contract with Edison for another five years; and in Duluth, their contract was extended for three years. In a "move that appears to be a national first in educational policy," Edison was awarded a contract to manage three Baltimore schools that the Maryland State Board of Education had "seized control of."[20]

Another for-profit firm is the Tesseract Group, Inc., formerly known as Education Alternatives, Inc. (EAI), which was one of the pioneers in for-profit contract education. As EAI, the company helped usher in the trend of private management of public schools, paving the way for larger companies such as Edison Schools, Inc. Starting in 1991 with a contract to run one school in Miami Beach, EAI was then hired to run a dozen schools in Baltimore and the entire school system (32 schools) in Hartford, Connecticut. In Hartford, EAI was provided a budget of around $200 million. At the time, Hartford was spending more than $8,500 per student but had achievement scores ranking among the state's lowest.[22] Teachers' unions in both Baltimore and Hartford "battled the company's program…and amid heated disputes over test scores…and performance both Baltimore and Hartford ended their contracts with EAI" and "EAI has been struggling after Baltimore."[21] With the creation of many other for-profit education firms—including Sylvan Learning Systems, Inc.; Alternative Public Schools, Inc.; Beacon Education Management; Mosaica, Inc.; Public Strategies Group, Inc.; and others—the consortium for Policy Research in Education issued a policy brief and stated:

> Contracting with for-profit firms is one of the new organizational arrangements to emerge in public education.… What is happening now is different: school districts are contracting for *regular* educational services, the very services they are organized to provide.… Private contracting is not an abdication of public responsibility; it is a *management mechanism* through which school districts may, or may not, better attain their traditional goals. By contracting, school districts simply decide to *buy* rather than *make*.[23]

In Minnesota, the State Board of Education approved an arrangement with the Public Strategies Group (PSG) to manage the Minneapolis Public Schools. The contract with PSG was concluded in May 1997 and, by mutual agreement, was not extended. In Pennsylvania, the Wilkinsburg district had a contract with Beacon Education Management (formerly Alternative Public Schools, Inc.) to operate the Turner Elementary School. In August 1997, with two years left on its contract, the Allegheny County Court of Common Pleas ruled that the state law did not provide authority for a district to award a contract to a private for-profit company to operate public schools.[24]

Advocates of privatization see the virtue in government and business combining efforts. "They argue that government's oversight function and its responsiveness to the needs of citizens can be retained while exploiting business' ability to cut through bureaucracy, reduce costs, and maximize achievement."[25]

Privatization also has its critics. The National Education Association–American Federation of Teachers oppose districts making such contracts. Alex Molnar in *NEA Today* noted:

> If we don't respond commensurately to the effort private companies are making to get into public schools, we won't be able to save public education for the future generations of children. If we allow private companies to strip the assets of our public schools, they won't be rebuilt in my lifetime or the next.
>
> Public schools in many communities are really the last institutions where children come into contact with adults who care about them and engage them in sustained nurturing relationships. With privatization, that will be destroyed.[26]

The private management issue will grow as long as school systems are having difficulties meeting community demands for achievement growth and other standards. If private, for-profit companies are successful in meeting goals, and if schools or districts are more efficiently operated with the same or even, in some cases, less per-pupil costs, then school administrators need to analyze procedures used by these companies and learn from them. "Though ambivalence toward private management of public schools may be acceptable for now, administrators should not only keep informed about private management, but consider its role in a changing society and a changing public school system."[27]

The ramifications for school finance may be negligible at this time, and school budgets may not change much. However, the distribution of revenues from a private operation may be considerably different from those presently being made by public school administrators. An overview of the topic a decade from now may show interesting results.

Local Control Not Guaranteed

State responsibility for education is guaranteed by the Tenth Amendment to the United States Constitution and many state constitutions. Local control of schools has long been taken for granted, but there is no guarantee of the extent or the duration of such authority. Since power comes to local districts by delegation from the states, it can be withdrawn at any time at the option of the delegating unit. Consequently, local school districts in each state have always operated at the pleasure of the state's legislature, operating within the limits established by the state constitution. As the states have gradually assumed more and more responsibility for financing education, the role of the local school district in its own governance has decreased commensurately. There is no indication that this trend is about to be reversed.

The great mobility of people has had much to do with the "insolvable" problems of financing education. As the little red schoolhouse has faded out of the picture, the extreme pride of citizens in a particular school has decreased. Average citizens want good schools wherever they go—to a different district or to a different state. The effects of good and of poor education diffuse among the towns and cities of the land. It thus becomes evident that good education is a state responsibility and cannot safely be left to local communities working alone.

Local Fiscal Control

The question of the degree or extent of power local districts should have in the control of their own fiscal operations is controversial and unsettled. If the state provides most of the local school revenue, should it exercise more authority over local school districts than when it provides less? Do the advantages of local districts' control over their own fiscal operations counterbalance the disadvantages? These and other similar questions need to be answered in the states as they continue to increase their proportionate share of public school revenues. Although local districts have traditionally provided more than have the states toward the costs of education, that pattern fluctuates over the years (see Figure 6.2).

Local Control and Tax Shifting

As previously noted in this book, minimal tax shifting is one of the characteristics of a good tax system. The effect is often most detrimental to local school districts, which may have some influence but little control over decisions made at the state level. Economic factors have an impact on what legislators are willing and able to do in meeting the many fiscal responsibilities they face. Meeting the demands of the various public agencies and the myriad political pressures makes designing an equitable budget a complex matter for states, and actions taken often erode local tax revenues.

At times, court decisions, legislation, or legal rulings (such as tax commission edicts) may change the focus of one tax structure that may influence another. For example, when redevelopment agencies were established in states and the federal government made revenue available for projects, it had a rather dramatic effect on counties and local school districts by removing some properties from tax rolls. Those districts that rely almost exclusively on local property taxes for capital outlay and debt service obligations can be greatly affected. Redevelopment projects, on the other hand, have generally had a very positive impact on city and county governments, which benefit from new businesses generating additional sales tax dollars. To make up revenue for those affected by the loss of property taxes—public schools, in particular—some

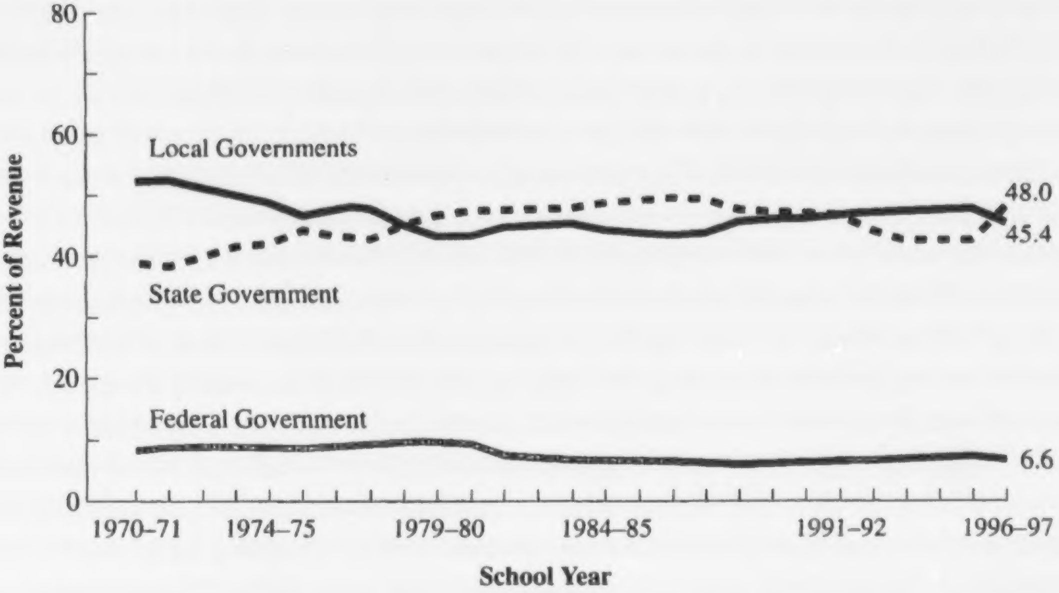

FIGURE 6.2 Sources of Revenue for Public Elementary and Secondary Schools: 1970–71 to 1996–97

Source: Digest of Education Statistics, 1999, NCES 2000333, June 2000. From U.S. Department of Education, National Center for Education Statistics; *Statistics of State School Systems; Revenues and Expenditures for Public Elementary and Secondary Education;* and Common Core of Data surveys. http://nces.ed.gov/pubs99/1999301/.

other source needs to be tapped, which may mean an increase in property tax for residential and business owners, or an increase in income tax.

The balance of assessing business and residential property is a delicate one that must be addressed by lawmakers. In many instances, business owners are taxed at a higher rate than homeowners. If political pressure from business owners results in a change—for example, from 80 percent of market value to 75 percent—then some adjustments would need to be made to meet budgetary needs. If, as a result, the residential property is increased one percentage point, then the shift has altered the balance. If, on the other hand, the business-assessed valuation was raised to 85 percent, the residential property owner may receive some property tax relief. The shift, however, may be felt at the checkstand.

There are complexities in taxing systems and in how shifting one taxing source influences another. At times, local school districts have little control over decisions that erode their financial base.

Excessive Reliance on Property Taxes

The property tax has not always been local; it has been and still is used by some state governments. It originated during the country's colonial period as a selective tax on particular kinds and classes of wealth. Its base increased until it included both real and personal property. Most of the states have discontinued or minimized the property tax at the state level, in favor of income and sales taxes. But local units of government, including schools, have found no adequate substitute for this means of transferring funds from the private to the public sector of the economy.

Local control of education, though strongly embedded in the U.S. mind, has many limiting factors that thwart its purposes and mitigate its effectiveness. Limitations in providing equality of educational opportunity from local tax sources alone are evident in every state. Obtaining adequate local funds for education is complicated by at least two facts: (1) Taxes on property is the major source of local revenue. (2) Competition for the local tax dollar is becoming increasingly more severe. Walker analyzed the use of the property tax in the following: "It has substantial vertical equity, meaning that it redistributes wealth from the rich to the poor through the schooling process. In addition, the tax tends to increase application of resources to high return human investments, such as education. The list could be extended, but perhaps it is sufficient to state that the prospects for reform of the tax are much greater than the prospects for elimination."[28]

One of the most obvious weaknesses of local control of fiscal operations is that in nearly all states local school districts vary greatly in their access to taxable resources. They must, of course, depend almost completely on property tax revenues for financing education. In poorer districts—those with a low assessed valuation per pupil to be educated—local tax requirements place heavy burdens on some property taxpayers, with the result that citizen pressure to hold down tax rates may result in a level of revenue inadequate for a good school program. Local school systems tend to become conservative and often refuse to inaugurate or operate high-cost programs, regardless of their potential value or the unmet needs of students.

A big problem each state faces in providing equal educational opportunity for all its citizens involves the extreme differences among districts in their ability to pay for education, as measured by the assessed valuation of taxable property per student to be educated. The difference of per-pupil expenditures between rich and poor districts is still extreme in several states.

The negative effects of inadequate support for schools are most pronounced for families of low income. Affluent families can provide alternatives to a poorly supported school, such as sending their children to more adequately financed public schools, sending them to private schools, employing tutors, or purchasing additional supplies and equipment. Such alternatives are rarely available to low-income families.

Municipal Overburden

Most of the urban school systems in this country are now facing some degree of financial distress. Their tax bases are either declining or growing too slowly to meet the rapidly increasing costs of education. The financial plight of city school districts is much like that of rural districts historically—unusual conditions that raise the costs of education beyond their ability to pay without additional state revenue. In most areas, the rural problem has been "solved" by the use of sparsity factors in state finance formulas, but solutions have not yet been implemented for most urban school systems. Since the unfortunate plight of big-city districts is a relatively new phenomenon, very little has been done to solve the problem.

Municipal overburden results from the fact that public schools and city governments must use the same property tax base to obtain the relatively large revenues required for their operation. The budgets of cities include large sums of noneducational public services such as police and fire protection and health services. The high percent of total city property taxes required to finance these services (as compared to the percent required in small-city and rural areas) limits the property taxing power of city school districts for education.

Most large-city school districts must provide education for large groups of high-cost students—those from minority groups, those with disabilities or disadvantages, and those whose parents migrated there in the hope of finding more satisfactory social and educational programs. The situation became more complicated and the tax burdens more accentuated as affluent inner-city residents moved to the suburbs and were replaced by less affluent citizens who moved there in search of employment. Erosion of the tax base thus accompanied the increase in the need for government services, including education. The high cost of these additional city social and educational services resulted in a higher burden on property taxpayers.

Cities, of course, have made attempts to overcome their problems of overburden. Some have overassessed certain types of property; some have adopted income taxes in order to involve suburban residents in paying part of city government costs; and some have appealed to the state and federal governments for financial assistance. A few states have attempted to alleviate this condition by giving big-city school districts additional student weightings or a density factor in their school finance formulas.

A number of contributing factors relate directly to the overwhelming financial problems now in evidence in urban school districts in all parts of this country. Consider the following:

1. Conditions related to student militancy, student mobility, and integration problems have reversed the traditional trend for candidates for teaching positions to go to the cities, where salaries were more favorable, working conditions were better, and individual initiative could more easily be directed to innovation and experimentation.

2. Problems involving the education of the socially and culturally deprived and the physically and mentally disabled are accentuated in city districts. Cities must deal with many of these problems, whereas rural school districts, because of lack of numbers, very often minimize them. The inequality thus engendered is accentuated by the great expense of these programs.

3. Increases in city property values have not kept pace with the rapidly accelerating increases in school expenditures. The movement of large numbers of middle- and higher-income people from the core city to the suburbs has curtailed building needs, so property valuations have not risen in cities to the same extent that they have elsewhere.

4. The relative taxpaying potential of city school districts has been reduced by the migration of large numbers of low-income families to the cities. Large demand for compensatory education programs, great need for welfare programs, and the high cost of educating deprived citizens—now in a majority in many cities—have combined to downgrade the educational program.

Developers of school financing programs have long recognized the fact that small schools are generally more expensive per pupil than larger ones. To compensate for this, school finance formulas have usually included provisions for sparsity factors, which have been accepted as a necessary and fair requirement. Only recently, however, has serious consideration been given to the higher costs of education per pupil in large cities. The density factor in determining costs has not yet been accepted to the same degree as its older counterpart, the sparsity factor.

Local Nonproperty Taxes

Some tax and finance authorities have looked with much hope and expectancy at local nonproperty taxes, viewing them as a strong potential supplement to property taxes. Local sales taxes, income or earnings taxes, and others have been used in some communities for school purposes. Unfortunately, the revenues obtained and the inconvenience of collection, plus taxpayer resistance, have made these taxes of doubtful value in many school districts, especially in small cities or communities. Some larger city school districts have, however, used local nonproperty taxes satisfactorily.

Local nonproperty taxes became somewhat popular after World War II, especially in urban centers where the total populations were large enough to make such taxation practicable. Tax authorities who had expected good results from such taxes were disappointed in their applications and their ineffectiveness in smaller districts. Fiscally independent districts have benefited little from such taxes. Some districts, however, have received substantial amounts of money from tax sharing with the state or county in the application of some forms of nonproperty taxation—the sales tax, for example. Up to this time, revenues from nonproperty taxes have been small in comparison with the total costs of education, but the trend may change in the next decade. Michigan has abandoned local property taxes and increased the state sales tax from 4 to 6 percent, and has imposed a 24-mill tax on nonhomestead and business properties to fund schools.

It appears that local nonproperty taxes will be reserved, for the most part, as sources of state revenue. At present, nonproperty taxes do not seem to have an encouraging future as a source of local school revenues.

Advantages of Local Control

The local community and the local school district in the United States are far more influential in their relations to their own educational programs than are their counterparts in other countries. Educational philosophy generally supports the belief that a large degree of local control not only stimulates local interest and support but also more easily permits innovations and improvements. The idea of strong national administrative control of education is repugnant to most citizens.

In certain ways, the local districts have an advantage over the states and the federal government in obtaining additional funds for education. Those who have observed the long history of federal aid attempts point to the many years of indecision and frustration caused by the bitter debates involving racial discrimination, separation of church and state, political jealousies, and the ever-present fear of federal control. Action at the federal level to shore up the finances of school districts continues to be a controversial issue. Substantially increased funds at the state level is a reality.

Property taxes remain the mainstay of local source revenues. According to Augenblick:

> The viability of education finance depends on diverse sources of revenue. Any attempt to eliminate a revenue source (such as the property tax), no matter how well intended, poses a threat to the education system. Rather than doing away with property taxes, policymakers should improve assessment practices, collection systems, and the tax rate setting process. In this way, the equity of a state's school finance system can be balanced against the assurance that adequate revenues will be available to support the education system.[29]

Fiscal Independence of School Districts

The question of whether the local school board should have autonomy within the law in the use of local tax sources and revenues is relevant in a discussion of local responsibility for education. Many in the fields of economics and political science argue in favor of the fiscally dependent district—a system that places the local district board of education under some degree of jurisdiction by the city or county government. Usually, this involves city or county approval of the school district's annual budget. Under this arrangement, city or county officials make final decisions for school budgetary requests, which are based on deliberations of the board of education without the understanding or active participation of the municipal authorities involved. As a group, educators almost universally favor fiscal independence for school boards.

Trends in Local Taxation Practices

Many people hope for relief for local property taxpayers, with an increase in the state and federal revenues for education. Current trends follow:

1. Property tax administration will be improved; even though taxpayer resistance against such taxes may increase, the property tax will continue to be an important source of funds for operation of public schools. Professionally trained career assessors, sophisticated computer assistance, realistic laws concerning property tax administration, the establishment of larger taxing districts to encourage specialization in tax administration, adequate and efficient state supervision of the program, and more effective communication between those who administer the tax program and those who pay the taxes—all are reasonable improvements that logically can be expected in the future.

2. Competition among local agencies for the tax dollar will continue to increase; schools will succeed in this arena only if they are able to improve the quality of the educational product that they produce.

3. The urban communities will continue to suffer from revenue shortfall unless given equitable treatment in local, state, and federal allocation of funds.

4. Efforts will be made to make the property tax less regressive and to relieve those who suffer economically from too much emphasis on this kind of taxation. In states that leave the financial responsibility of education almost completely up to the individual local districts, property taxpayers have justifiable cause for complaint.

Measures of Local Taxpaying Ability

The ability of a local school district to pay the costs of education without state or federal support is a function of two variables: the value of taxable property and the number of pupils to be educated. This is usually expressed as the assessed valuation of taxable property per person in average daily attendance or in average daily membership in school.

For nearly a century, scholars and practitioners of school finance have been studying how to measure the comparative abilities of local units of government to finance education and to provide other services. State equalization programs—particularly those involving power equalization—must use some valid and reliable measure of local fiscal ability if state and federal allocations of funds to local districts are to be justified.

Scholars have conducted extensive research in an attempt to refine the measurement of local fiscal ability. There seems to be little justification for using a theoretically computed index of ability, but there is a strong rationale for using the ability as measured by the tax structure and current system. Little is to be gained in comparing the abilities of school districts in terms of potential taxes and revenue that are not available to those districts. These are measures that may have real value in determining a state's ability to support education, since the state legislative body can make them available by statute, but their value in comparing local districts is limited and questionable.

Local, State, and Federal Tax Responsibility

A difficult problem arises in coordinating the taxing system of the three levels of government—federal, state, and local. No one has yet determined the ideal, or even the most practical, combination of taxing powers and authority of these levels of government that will produce maximum social and cultural benefits with maximum taxpayer equity and minimum taxpayer burden and inconvenience. To a very great extent, these three units of government operate their tax patterns in isolation from each other. Ideally, their taxing systems should be coordinated. The elements of taxation that are usurped to some degree by any one unit of government would seemingly be sources beyond the powers of the other two units to use. But adequate funds must be provided regardless of source if good education is to be provided for all our citizens.

In most states, the local school districts have traditionally had to raise the major part of the tax revenues required to finance their public schools. Reluctantly, the states have assumed important but varying degrees of responsibility for financing education, but the federal government has fluctuated in its participation. For the most part, the latter has remained aloof from the problem. As the states and local districts approach the limits of their taxing power for education, they expect financial assistance from the federal government. The National Education Association has stated, "Public education in the United States is a *joint* enterprise of federal, state, and local government.... Federal funds represent a modest supplement directed principally at special populations... states and school districts give substance to public education."[30] The proper role of the federal government in financing education has not yet been determined. Until a significant change occurs in the generally accepted philosophy of financing education, the principal responsibility for that activity will probably continue to rest with the states and their local units.

Summary

Because of the continual increases in funds allocated to public education by most of the states, local control of education is slowly decreasing. This is a source of some concern to many people who view education as a frontier where people at the local level can exercise some degree of authority in decision making in matters that directly affect them.

Rural areas of the country no longer have the strong influence on legislation they once enjoyed. On the other hand, urban areas have lost the financial advantage they once had over rural areas. City school districts suffer financially because of higher costs and the need to provide social and welfare services that are minimized in most rural areas.

Although much has been done to decrease the extremely large number of school districts that once existed in the United States, some states still operate far too many small districts. Just as many school districts are too small for efficient operation, many city districts are too large. Most states have been able to provide for the financial needs of small districts and are working toward a satisfactory solution for the municipal overburden of large cities.

The authority and responsibility of local school boards have diminished. Since the prevailing interpretation of the Tenth Amendment to the United States Constitution and the equal protection and education clauses in many state constitutions provide for state responsibility for education, local control is not in any way guaranteed; it may change as the individual states dictate. Historically, there has been a fervor to maintain local control of education, but greater open debate and controversy regarding the effectiveness and usefulness of local boards have emerged in the literature in recent years.

A good tax system has a minimum of tax shifting. The results are often detrimental to local school districts that have limited control over such matters. Court decisions, legislative action, or legal rulings may change the tax structure that can cause a local school district to lose revenue for the instructional program as well as capital outlay and debt service obligations. The process is complex, and local boards of education may have little control over factors that erode their financial base.

Mobility of the population is significant, and people want good schools throughout the nation, but the public may not be willing to pay for them. Recent developments have some local boards looking to private, for-profit companies to operate schools. Critics indicate that this approach will erode local control.

The states have always assumed general responsibility for education, but many of them have left the major financial obligation and control with local districts. The real property tax has been the major source of local funds for education since the early history of the nation. States have recently begun to place limits on such taxes and, in a few instances, have placed limits on annual expenditure increases for public education.

Local nonproperty taxes are not as effective or productive as they appear to be in theory, yet some states are branching to other sources. Education finance will need to depend on diverse sources of income in the future.

A relatively few school districts are still dependent on some other unit of government for approval of some aspect of their financing. The disadvantages of such a relationship far outweigh the advantages. Dependent school districts are much more likely to become involved in local government politics than are independent districts.

Certain trends are discernible in local taxation practices. Better property tax administration, continued competition for the tax dollar among various agencies and institutions of government, a continuation of the problems created by municipal overburden, more state support for education, and continued resistance to taxes are among the most evident.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *school district, school board, administrator, municipal overburden, privatization, fiscal independence, consolidation, reorganization, tax shifting.*
2. Summarize the arguments for and against local control of public education.
3. Reducing the number of school districts in a state will generally reduce the difference in ability to support education between the "wealthiest" district and the "poorest" district in terms of assessed valuation per pupil to be educated. Construct a problem in a state (real or mythical) and show that this statement is true.
4. Interview the business administrator at a local district. Determine the revenue generated at the local level, the assistance from the state, and the implication the ratio has on local control of the district.
5. Write a paper presenting the pros and cons of the concept of municipal overburden payments to urban school districts.

6. Research and report on the advantages and disadvantages of consolidating school districts within a state.
7. Write a paper outlining the pros or cons of privatizing various elements of public education.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER 7

Education: A State Function

State policy makers continually face the dilemma of achieving excellence in public education given the financial resources and political constraints that they face.

—David S. Honeyman, 2001

Education appears to have been considered important in colonial times largely because of its presumed preventive effect in fortifying people to resist evil. Important as that purpose may have been, the rationale for the establishment and operation of schools has changed considerably since that era.

Establishing and operating a system of public schools has been recognized as a function of government rather than of private enterprise since the settlement of the first Europeans in what is now the United States. These early colonists recognized the importance of education in building and maintaining a democratic government and properly developing individuals and organizations to serve it. The general tone toward schools and education was succinctly expressed in the statement the Continental Congress included in the Northwest Ordinance of 1787: "Schools and the means of education shall forever be encouraged." The spirit of that declaration continues to be a part of the national ideal.

The present relation of government to education has evolved over two centuries. For the most part, the practical "partnership" of federal, state, and local levels of government has worked well. Each state has been responsible for its own system of education, with power to delegate whatever degree of control it chose to local districts of the kind and number it desired. As a result, there have been 50 versions of how education should function in as many states. The federal government over the years has had very little real authority over education.

Changes and innovations are an integral part of the continuing development of the nation's educational system. The need for improvement of education is becoming more observable year after year. But how shall the course of the three-level governmental relation to education be determined? Is the stage being set for more state and less local responsibility for financing education? Have the traditional arguments favoring local control become obsolete? Should the federal government become more involved in public education? Such questions demand serious consideration as the nation moves to meet the imposing challenges facing it in the twenty-first century.

Early Development of State Responsibility

The word *education* is conspicuous by its absence in the United States Constitution. The writers of that document avoided any specific designation of responsibility for the pattern that formal education should take in this country. The reasons for such an important omission are presumed to have been as follows: (1) The original 13 colonies had already established their own patterns of school organization and had recognized and accepted their individual obligations for education, at least to some degree, by action and legislation during the colonial period. (2) Certain other needs of the newly formed states were more urgent at that time. (3) Many of the leaders of government presumed that a controversy over educational responsibility might lead to an impasse, or at least add greatly to the already overwhelming problems about which there was great dissension. (4) Government leaders viewed education as an activity to be handled by state governments and therefore adopted the Tenth Amendment to the U.S. Constitution, which left many powers to the states, thereby instituting the principle of federalism.

The Constitution should be interpreted and evaluated in terms of the unique conditions under which it was adopted rather than in terms of its presumed deficiencies or its areas of emphasis. The United States of America was born as a legal entity after a period of stress that resulted in the American Revolution. The colonies won that bitter conflict after almost superhuman effort and sacrifice on the part of many, but not all, of their citizens. The founding fathers, recognizing their break with the philosophy of government of that day, were vitally concerned with how to establish perpetuity of government. They felt a need to avoid endowing the federal government with powers that might at some time overbalance the powers of the state governments. This they hoped to achieve by delegating certain powers to the federal government while strengthening the structure and framework of the individual states. As new states entered the Union, the enabling legislation usually required the states to assume educational responsibility in their constitutions.

It should not be assumed that early Americans were indifferent to education or had little interest in it. The establishment of Harvard in 1636, the Laws of 1642 and 1647, and the Ordinances of 1785 and 1787 (passed by the Continental Congress under the Articles of Confederation, which makes federal aid to education predate the Constitution) are examples of their actions to provide for some important aspects of an educational program. Education had been at a low ebb during the Revolution. It was provided mostly by private schools, with only local community support and with little or no cooperation among schools. The real battle for free public schools under colonial or state supervision had not yet begun.

Undoubtedly, the framers of the Constitution believed that the governmental framework they were creating implied provision for education. James Madison proposed the establishment of a university; Thomas Jefferson advocated appropriations of public lands for education; and George Washington pressed hard for a national university. With such support for specific aspects of education by these and other leaders of that time, few historians believe that education was not considered by the founding fathers.

In the minds of many interpreters of the Constitution, Article I, Section 8 gives Congress the authority to provide educational support. "The Congress shall have power to lay and collect taxes…to pay the debts and provide for the common defense and general welfare of the United States." Education is part of the general welfare of the nation.

Some of the deficiencies of the Constitution were evident as soon as it was adopted. It was apparent immediately that it did not protect individual rights to the extent expected or desired. Consequently, the first 10 amendments were adopted in 1791 as the Bill of Rights. These, especially the Tenth Amendment, form much of the legal basis for the nation's present system of education. The Tenth Amendment provides that "the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." Thus, education has been and continues to be primarily a function of state government. This responsibility is further documented by state constitutional provisions acknowledging and accepting this power, plus numerous court decisions supporting the states' leadership in education.

State Interpretation of Educational Responsibility

The 50 states have not all accepted the challenge and obligation to sponsor education with the same degree of enthusiasm. Some have created large numbers of local districts and left most of the problems of education in the hands of local boards of education; some have exerted very little administrative control or leadership over local units; and others vary from this point to greater state control, with Hawaii being a fully maintained state school system.

The state school systems developed from local units. State responsibility for education was accepted in theory, but little leadership at this level was in evidence until the early nineteenth century, when a few educational leaders, particularly Horace Mann and Henry Barnard, began their historic efforts to develop a state foundation for education.

Development of Decentralized Educational System

Education historians have noted that local units of diverse sizes and philosophy dominated the United States scene:

> It was not unnatural, during the days of the frontier, that education, though plainly enough a legal function of the state, should have been carried on with a very large measure of local operational discretion. The frontiersman disliked governmental restraint and found it especially odious when it touched a matter so personal and domestic as the rearing of his children. So long as these frontiersmen sent their children to school and did not press for financial assistance the most exacting state government was willing to let them alone.[1]

Thus, the story of the development of the 50-state school systems is one of diversity, struggle, and dedication to the idea of a decentralized system of education, without a national system, a minister of education, or any national control. Thurston and Roe described the situation well:

> In tracing these developmental influences one is struck by the awareness that events and situations surely and inevitably seemed to be drawing this new country toward state-established universal free public education as the only logical solution which would correlate with a system of government based on the freedom and dignity of man. The struggle within the colonial government over the perplexing problem of localism and state rights versus national power shaped eventually our curious trilogy of educational control and cast the mold of our legal structure of education. The solution today seems natural—with the state maintaining legal supremacy and acting as the fulcrum to provide proper balance for the local community on the one side, where schools can be kept close to the people, and the national government on the other, where the general welfare of the nation can be safeguarded.[2]

The typical citizen tends to think of the state school systems as having existed as they now are from the beginning of the nation, but our patterns of education, including our financial formulas and schemes, are the products of more than two centuries of development under a grass-roots process of building—a process that was often erratic. However, appreciation for these systems, with all their limitations, comes quickly to the conscientious student of educational history. Those who understand the contributions of such men as Washington, Jefferson, Franklin, Paine, Barnard, and Mann must share some degree of pride in our systems of education, which have made such rich contributions to this country.

It seems, then, that the omission of specific educational provisions from the Constitution has proved to have been wisdom on the part of those who were responsible. Sound philosophy espousing decentralization, a willingness to involve people at the local and state levels, and national patience have proved to be better developers of our state school systems than anything that could possibly have been planned by the foresight of earnest educational and governmental leaders more than two centuries ago. From this process there emerged the best organizational pattern of education the world has yet produced.

Development of School Finance Policies

The history of financing public school education in the United States is an interesting one. Actually, it is 50 separate stories of controversy, fumbling, false starts, long periods of inaction, and application of various forms of informal local and state action. In the early part of the nation's history, most of the costs of school operation were defrayed with nonmonetary services, provided by school patrons to the school itself or to the teacher. Fuel, custodial services, board and room for the teacher, and similar services were provided in lieu of salaries, insurance, and benefits.

As the schools grew in size and complexity, so did the methods of financing them. These finance systems, and even the processes used to develop them, represent diversity and lack of standardization in the fullest meaning of those terms. Too often, the states profited little by the experiences of other states. Much too often, the states seem to have regarded variety as virtue and following the leader as vice. The lessons learned in one state seldom reduced the learning period required by taxpayers and professional leaders in another. This problem was solved in some small measure by the establishment of the Education Commission of the States as well as the creation of educational organizations such as the National School Boards Association, the Council of Chief State School Officers, the American Association of School Administrators, the National Association of Elementary School Principals, the National Secondary School Principals Association, and other similar alliances.

Land Grants and Other Nontax Funds

It is difficult to determine the exact beginning of state support for public education. Paul Mort reported that by 1890 the existing states provided about $34 million—almost 24 percent of that year's total school revenue. Since some of that state revenue was obtained from land given to the states by the federal government in the famous Northwest Ordinance of 1787, Mort included federal funds in the category of state funds.

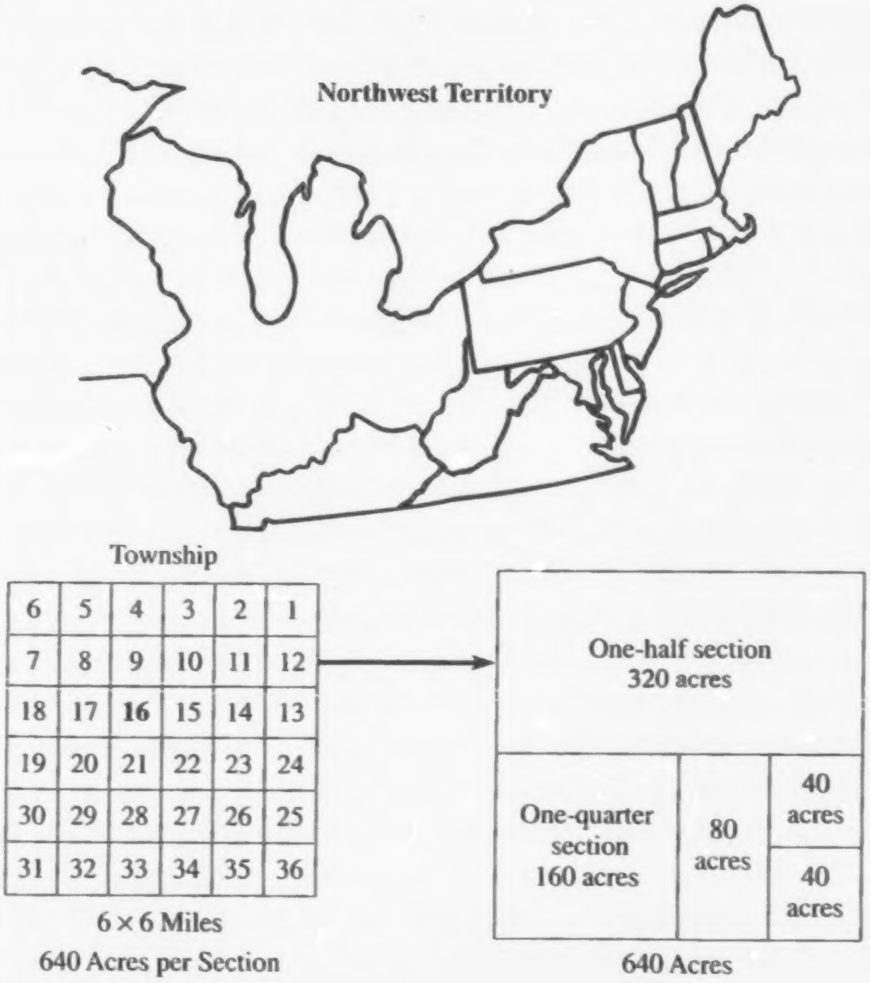
Although the Tenth Amendment to the Constitution states that all powers not delegated to the United States are reserved to the states respectively, or to the people, that statement was not immediately recognized as a mandate to the states to provide financial support for education. State support of education developed slowly, even though some educational finance theorists contend that the Tenth Amendment is tantamount to positive law. When the twentieth century began, only 17.2 percent of public school district revenues came from state sources. When the twenty-first century began, around 48 percent came from state sources, an increase of nearly 300 percent.

The states generally provided means of legalizing local school taxes in their early statehood years, but equalization and sound theories and practices of state-local partnership in financing education were developments of the twentieth century.

In the early history of the colonies, land grants for the establishment and support of schools were common, especially in Massachusetts. As an example, the early pioneer work in the field of land grants by Massachusetts, the state of Maine was created. Other more or less popular sources of the limited funds used to establish and maintain schools in the colonies included gifts, rate bills, and lotteries. Before taxation became the accepted method of financing schools, most of the known ways of collecting money were used in one or more of the 13 colonies to obtain school funds. The early settlers brought with them the traditions of their European homelands, which had little relation to practical methods of financing decentralized schools as they began to emerge in the United States. Thus, there followed a long period of conflict over how to solve this important problem.

In the early United States, with its seemingly unlimited expanse of land and other valuable resources, it was natural that the granting of lands should become a significant reality in financing education. This policy was implemented by the Northwest Ordinance of 1785 and 1787 (see Figure 7.1), which was enacted by the Continental Congress primarily to stimulate migration to the West and secondarily to foster education. This law provided for a survey of western lands by establishing townships with 36 sections. Each section contained 640 acres. Usually, a settler homesteaded 80 acres, constructed a home between 40-acre parcels, and called one portion the "north forty" and the other portion the "south forty." Section 16 of every township was reserved for education. Its purpose was in the now famous statement, "Religion, morality, and knowledge being necessary to good government and the happiness of mankind, schools, and the means of education shall be forever encouraged."

The land grants of 1787 became effective with the admission of Ohio to the Union in 1802. When California became a state in 1850, the grant included two sections per township. Arizona, New Mexico, and Utah received four sections per town-


Northwest Territory
Township
One-half section
320 acres
One-quarter section
160 acres
80 acres
40 acres
40 acres
6 × 6 Miles
640 Acres per Section
640 Acres

6	5	4	3	2	1
7	8	9	10	11	12
18	17	**16**	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

FIGURE 7.1 The Ordinance of 1785

ship on becoming states in the latter part of the nineteenth and early part of the twentieth centuries.

The effect of the land grants on education was monumental. However, the lands were mismanaged in some of the states; the funds obtained from the rent or sale of the land were sometimes squandered. As a consequence of such mismanagement and inefficiency in many of the states, the potentially large revenues from this source were never fully realized.

The land-grant states relied to a great extent on the land grants to supply school funds until the end of the nineteenth century. The size of the grant was great, even in terms of the enormous expanses of unsettled territory of that day. For example, 12 states received the sixteenth section per township; 14 states received sections 16 and 36; and 3 states received sections 2, 16, 32, and 36 per township. Kentucky, Maine, Texas, Vermont, West Virginia, Oklahoma (which when settled was *Indian land*), and the 13 original states received no federal lands.

Since the original grant of land, the federal government has granted additional lands to some of the states, including salt lands, swamp lands, and internal improvement lands. Altogether, the land grants have been estimated to be more than 154 million acres, which is a land mass greater than Illinois, Indiana, and Ohio combined, and a value of billions of dollars—not including statehood grants to Alaska and Hawaii. In spite of the inefficient management of some of these lands, the funds derived provided many of the states with the means required to establish and operate schools while their state and local tax structures were being developed. They antedated state property taxes and thus became the revenue source for state improvement programs in extending the quantity and improving the quality of school services during the early development of state school systems, especially in the midwestern and western states.

Early Taxation Patterns

The taxation patterns for education in the newly formed United States were largely permissive, creating a situation that generally favored the city school districts, which were progressive, and penalized the rural areas of the country, which were more tax resistant. The taxing policies of the several states emerged gradually from the patterns that had been used in the New England states. By 1890, all the states then in the Union had tax-supported public educational systems. About one-fourth of them provided more than half of their public school costs from state funds, and only 11 states provided less than 15 percent of their public school costs. The states not only felt certain responsibilities to help build sound educational programs but they were also concerned with the settlement of the West. Hence, the first quarter of the nineteenth century saw the real beginning of a taxing pattern for the support of public education. By then, most of the nontax sources—gifts, lotteries, bequests, and rate bills—were beginning to vanish from the scene. Some of these practices have resurfaced and are evident today, especially lotteries. Other nontax sources—such as education foundations, and partnerships, gifts, and benefits—are becoming more prevalent. Taxation, however, still remains the primary source of state and school finance revenue.

Developmental Stages of School Finance Theory

The development of public school finance theory and practice can be divided into five stages or periods. Admittedly, the periods overlap, and no specific dates divide them. Although theories have developed logically, their acceptance and use by the states have often been sporadic or almost nonexistent. Examples may be found of states that even now are in each one of the five stages of development. Of course, the size of a state, its educational finance needs and traditions, and its educational leadership may have equipped it for easier and freer transition and movement, compared with other states, into a modern and realistic stage of school finance theory and practice. Although states have continually pushed forward the frontier of educational finance theory, some are still trying to operate with outdated financing practices.

The five stages of development of state-local relations (disregarding the federal level for the moment) are (1) the period of local district financial responsibility, with little or no assistance from the state; (2) the period of emerging state responsibility, with the use of flat grants, subventions, and other nonequalizing state allocations to local districts; (3) the emergence of the Strayer-Haig concept of a foundation program; (4) the period of refinement of the foundation program concept; and (5) "power" or "open-end" (shared costs) equalization practices.

Period One: Emphasis on Local Responsibility

Since schools were first established in the United States on a local basis, it was natural for school finance to be a local community or church problem. The original colonies used rate bills or tuition charges—a procedure that they brought from their European homelands—but some of the New England towns began very early in their history to use property taxes to help finance education. Massachusetts and Connecticut were the leaders in this field, and each used this practice to some extent during the latter half of the seventeenth century. Tax support was used to a limited extent in the original southern states and in some mid-Atlantic states for the support of pauper schools.

The permissive property tax laws that existed when the colonies became states gradually became mandatory toward the end of the eighteenth century and the early part of the nineteenth. As the westward movement of settlers accelerated and the number of local school districts began to multiply, the popularity and acceptability of the local property tax as the mainstay of the school financing program increased. By 1890, with the closing of the frontier, all of the states were using property taxes, supplemented in many instances with revenue from the land grants and from other sources.

The gross weaknesses and limitations of financing education at the local level are all too evident. Extremely wide differences in local taxpaying ability to meet the costs of education in hundreds of school districts (in a few instances, more than a thousand) in a state make a mockery of the theory of equality of educational opportunity for all school pupils, unless the state does something to help financially weak districts. Since each district is almost completely on its own as far as finances are concerned, the place of each pupil's residence becomes the all-important determinant of the quantity and quality of education available. Local initiative and local ability, important as they are in the philosophy of decentralization in education, should never be allowed to become the determinants of the caliber of education that the citizens in any community receive.

The weakness of complete local financing of education becomes more evident as the property tax becomes less and less based on the ability-to-pay principle of taxation. It is evident that the greater the number of school districts in a state, the greater the likelihood of wide disparities in wealth, so states with hundreds of school districts can least afford to confine themselves to this obsolete approach to the school finance problem.

In the early twentieth century, as rural communities and neighborhoods grew into larger ones, without accompanying expansion of taxable wealth, the need for state support of education became more evident. States were slow to move in this direction, however, until the Depression of the 1930s showed the hopelessness of financing education by complete reliance on local property taxes.

Some forms of state support had existed for some time before the Depression. The early work of Ellwood P. Cubberley in 1905 was the beginning of an era of study and experimentation in devising state plans that might assure equality of educational opportunity for all and at the same time improve school programs and equalize the tax burden.

Period Two: Early Grants and Allocations

> About the turn of the [20th] century public schools in most population centers acquired their present structure—12 grades and a nine-month school term—and came to represent a greater cost to local taxpayers. As States legislated local programs of this scope, the issue of inequality in local wealth surfaced. Rural communities in particular found it increasingly difficult to impose tax rates stiff enough to meet the State mandated programs. Cities with their concentration of valuable properties could and did provide high level educational programs with moderate tax effort.[3]

From the very beginning of public financing of schools, a few states recognized and implemented their responsibilities in the matter. A number of reasons may be given for this early development: (1) The extreme inequalities that local property taxation generated among local school districts were soon obvious. (2) The funds that the sale and rental of the public lands provided were intended to find their way into the treasuries of local districts where control of education existed. (3) Many leaders in the educational movement recognized that the responsibility for education that the Tenth Amendment thrust on the states encompassed financial responsibility as much as any other kind.

Cubberley was the pioneer and foremost figure in the serious consideration of state apportionments of funds to local school districts. Some of the principal tenets of his philosophy of school finance are expressed in the following:

> Theoretically all the children of the state are equally important and are entitled to have the same advantages; practically this can never be quite true. The duty of the state is to secure for all as high a minimum of good instruction as is possible, but not to reduce all

> to this minimum; to equalize the advantages to all as nearly as can be done with the resources at hand; to place premium on those local efforts which will enable communities to rise above the legal minimum as far as possible; and to encourage communities to extend their educational energies to new and desirable undertakings.[4]

Cubberley's study of state allocations of funds to local districts—including flat grants, percentage grants, and others—showed that such allocations did not reduce inequalities and may even under certain circumstances have increased them. He saw little evidence that state fund allocations had reduced the wide range in the quality of education produced in school districts or the great disparity in ability to finance their programs. He made the first scientific study of the problem.

Cubberley was dedicated to the principle of equality of educational opportunity for all. Most of his ideas of how to provide such equality were far ahead of the practices of his time, even though most of them have been revised and improved in recent years. Noteworthy among the ideas and principles that Cubberley espoused were:

1. The belief that education was indeed a financial responsibility of the states, which they could not and should not ignore.
2. The firm conviction that state financial support was in addition to local effort, not intended as justifiable tax relief to local districts.
3. The awareness that existing methods of allocating state monies not only did not equalize the financial ability among local districts but may actually have increased financial inequalities among districts.
4. The need to increase the number of educational programs offered in the schools with attendant increases in state money for those districts with such extensions. This was his widely known version of reward for effort.
5. The wisdom of using aggregate days attendance over census, enrollment, average daily attendance, or any other measure used in determining the amount of state funds to local districts. This would encourage the extension of the school year and would penalize those districts that shortened the total length of their school year.
6. The need to distribute some part of the state funds on the basis of the number of teachers employed in a district. This would aid the rural districts, which usually had a low pupil-teacher ratio.

Most of the Cubberley-inspired theories of school finance have become discredited and outmoded. It is easy to show that he was right in condemning flat grants, percentage grants, and subventions as nonequalizing. It is likewise easy, however, to show that his reward-for-effort principle was also nonequalizing. The wealthy districts already were employing more teachers, conducting more and better school programs, and holding more days of school per year than the poorer ones were. Thus, his reward for effort was applicable in the wealthier districts and much less applicable in the less wealthy ones.

Some states still use a few of the features of Cubberley's finance proposals. Fortunately, a number these practices are in combination with other, more equalizing methods of allocating state funds. Although some nonequalizing grants may have justification in school finance formulas, they are not justified if used alone. They represent progress beyond local effort alone, but they are glaring examples of some of the inconsistencies so readily discernible in the Cubberley concept.

It must be emphasized that there are some potential dangers involved in allocating state funds to local districts, regardless of how this is accomplished. Two principal risks are (1) the state could increase its control over local districts as it increases its financial support and (2) state monies may be used to supplant rather than supplement local monies for education.

The first of these two considerations requires little discussion, for the state already exercises plenary power over its school districts. The degree of state authority and power over education is entirely a legislative matter that the will of each successive session of each state's legislative assembly controls and regulates. The extent of such control need not be in direct relation to the fiscal policies of the state as far as education is concerned, and it has not been so.

The purpose of state financial support of education is not to replace or reduce local effort unless that effort has been considered unduly burdensome to local taxpayers. Its purpose has been to supplement local tax revenues in order to provide an acceptable school program. The obvious answer to this problem is to require minimum school district levies before state funds are forthcoming.

Period Three: Emergence of the Foundation Program Concept

Modern school finance theory had its origin in the monumental work of George D. Strayer and Robert M. Haig. The real theory of equalization with its foundation program concept began with the findings of the Educational Finance Inquiry Commission of the schools of New York in 1923. The equalization of educational opportunity through the inception of a foundation or of a minimum program came as a direct result of the Strayer-Haig intensive studies of school finance programs built around the Cubberley philosophy and practiced in several states in the United States, particularly New York.

The Strayer-Haig studies discovered that in the school finance program of the state of New York, built as it was primarily around the distribution of state funds on a per-teacher quota basis, favored "the very rich and the very poor localities at the expense of those which are moderately well off." From this and other discoveries of deficiencies in the state finance plans of that era, Strayer and Haig advocated their *foundation,* or minimum program, concept. Their plan centered on several fundamental factors or standards:

1. A foundation program should be devised around the rich district idea—each local district would levy the amount of local tax that was required in the richest district of the state to provide a foundation, or minimum, program. The rich district would receive no state funds; the other districts would receive state funds necessary to provide the foundation program.
2. All foundation programs should guarantee equality of educational opportunity up to a specified point, but all local districts should have the discretionary right to go beyond that point and provide a better program through tax-levy increases.

3. The program should be organized and administered to encourage local initiative and efficiency.
4. The features of the program should be defined in the law and should be objective and apply to all school districts of the state.
5. Foundation programs should be constructed, after thorough study and careful planning, around the needs and resources of each individual state.
6. The cost of the foundation program should include a major part of the total cost of public education in that state.
7. The program should be organized so that no district receives additional funds because it is underassessed for property taxation purposes at the local level; uniform property assessment is essential in all foundation programs.
8. The plan should encourage the reorganization of school districts into a reasonable number and the consolidation of attendance areas wherever practicable, but provision must be made to avoid penalizing necessary small schools.
9. The foundation program should be a minimum and not a maximum program; local initiative and increased expenditures above the foundation program must be practicable in all the districts of a state.

The Strayer-Haig concept of equalization is summarized in the following brief statement:

> The Strayer-Haig approach became the model for numerous State adaptations. Compromises with the strict application of the equalization objective were made in most States to accommodate: (a) the long-standing tradition of flat grants; (b) the reluctance of State officials to increase State taxes to fully finance an equalization plan; and (c) the desire of some localities to finance truly superior public schools. In most States the foundation plan ended up providing the poorest district with a basic educational program at a level well below that which many school districts willingly supported. Wealthy districts were left ample local tax leeway to exceed the minimum foundation plan level without unduly straining local resources. Retention of flat grants as part of most State school financing plans left the wealthiest communities free to forge ahead.[5]

Period Four: Refinement of the Foundation Program Concept

The foundation program concept opened the gates for widespread experimentation and refinement of this method of approaching equal educational opportunity. In the state of New York, Paul Mort, working with Strayer and Haig, developed a program providing a degree of equalization plus the use of flat grants. The question of whether to take "surplus" monies from wealthy districts to help the states obtain equalization revenue was often debated and "settled" in various states. The question of the reasonableness of continuing the Cubberley concept of payment for effort was likewise debated by the individuals and commissions that were facing the problem of improving state finance programs. Wide differences in interpretation of the foundation program concept were developed and experimented with during this period.

Some important changes followed experimentation with the Strayer-Haig concept of equalization:

1. There began an early movement away from the levy of a statewide property tax, the proceeds of which were to be distributed to schools on a school population or average daily attendance basis.
2. Fiscal independence of school districts was attained in most sections of the country.
3. The change from state property taxation to local property taxation brought intricate problems of obtaining fair and equitable property assessments.
4. The Depression years saw the establishment of laws in most states limiting the taxing power of school districts.
5. Beginning efforts have been made in the use of local nonproperty taxes. These, however, have been insignificant except in a few large local districts.
6. The Cubberley emphasis on improvements and reward for effort with state funds was undercut by the Mort emphasis on equalization.

Mort found that this concept of equalization was incompatible with Cubberley's emphasis on reward for effort:

> The conclusion follows that these two purposes (equalization and reward for effort) that have controlled attempts to build state aid systems since the work of Cubberley two decades ago are found to be incompatible. We are, therefore, faced with the necessity of choosing one or the other. It is a choice between meeting the demands of a principle that cannot be met without state aid—the equalization of educational opportunity—and the use of one of many methods for meeting another principle.[6]

The Advisory Commission on Intergovernmental Relations noted some of the ways in which the Mort program improved on the Strayer-Haig theories:

> Perfecting amendments to the basic Strayer-Haig equalization thesis were developed as States enacted their foundation plans. For example, Paul Mort and other practitioners showed that educational costs differ for elementary and secondary pupils and that the unit of need in the foundation plan should be appropriately weighted to reflect these differences.... The physically and mentally handicapped children became the subject of special solicitude.[7]

Modern school finance theories were spawned and developed by a relatively few well-known leaders in the field, such as Cubberley, Strayer, and Mort. Their contributions are known to all who read the literature of school finance. But historians generally seem to have forgotten or minimized the importance of others' contributions to the field. This apparent oversight may have been due to the unpopularity or lack of acceptance of their ideas at the time of their introduction.

Two school finance pioneers of the early part of the twentieth century whose contributions to the field were important but who have not always occupied their rightful positions in school finance history were Henry C. Morrison and Harlan Updegraff.

Their theories, while not particularly popular in their own time, are relevant in today's finance reform movement with its emphasis on increased state support for education and district power equalization.

Henry C. Morrison emphasized that the methods of financing education in the early 1900s were unsatisfactory. Local school districts, by their organizational structure, were perpetuating unequal educational opportunities for the school children of each state. The allotment of state funds or grants to districts for special purposes was not bringing the kind or amount of equalization its advocates expected. Morrison favored a new and different approach to the problem. He theorized that if the state were one large district, it could not only equalize the tax burden but it could also distribute the funds derived without complicated formulas such as were being used. Some of his main ideas—use of the income tax, full state funding, and considering the state as one large district—are much more acceptable today than they were in Morrison's own time. For example, several states now use the income tax to relieve the unfair and regressive property tax from some of its traditional burdens, and Hawaii has become a one-district state under many of the conditions Morrison advocated.

The unpopularity of Morrison's view resulted from his lack of support of a philosophy of local control of education and his willingness to replace "popular" property taxes with "unpopular" income taxes. Changes in two conditions have brought a degree of popularity to Morrison's ideas: (1) Local control has lost some of its traditional glamour. (2) The property tax—even though still necessary at the local level—has sunk to the bottom of desirability as a major source of school revenue.

Harlan Updegraff in 1922 developed a formula that would combine equalization and reward for effort without the objectionable features of the Cubberley plan. This was simply allowing the state to provide funds for program improvement (as well as for equalization), with each local district free to determine what the improvement program should be. (Updegraff's work in New York preceded the work of Strayer-Haig, but his contribution to the philosophy of school finance is more related to this period than to that of Cubberley.)

As indicated elsewhere in this text, the states have moved somewhat blindly from one form of state and local financing of education to another. The foundation program was accepted as the best method of leveling the inequalities that seemed to persist among the districts within every state. But even the foundation program has not proved to be a panacea. The high costs of compensatory education, the financial problems that result from municipal overburden, the unfairness among districts that varying policies and degrees of property underassessment create, and the inability of poor districts to go very much beyond the minimum program are evidence of the need for improving the minimum, or foundation, program concept in its current form.

Period Five: Emerging Power Equalization

The foundation program concept was an improvement over the older methods of distributing state funds to local school districts. In spite of that, however, school districts of differing financial capacities continue to have unequal abilities to exceed the foundation program. Thus, in the less wealthy districts, the foundation program has been not only a "minimum" but also a near "maximum" program, for tax levies above the foundation, or base, without state help remit such small amounts of revenue that they discourage local effort to exceed the base program.

The predominant theme in school finance practice for the first half of the twentieth century was *equalization of educational opportunity.* The wealth of the state was to be taxed to educate all the children of the state regardless of where they lived or the taxpaying ability of their parents or their school district. Various devices and formulas have been tried and notable improvements made. Equalization meant that the state and local districts were exercising a degree of partnership in establishing and paying for a basic program of education for every school-age child in the state.

In the mid-twentieth century, Paul Mort and others advocated a new concept of equalization—a "new look" in incentive financing. Their proposal guaranteed a foundation program at state and local expense for all districts and also encouraged local initiative for a better educational program by continuing to maintain a high degree of state-local partnership for whatever level above the foundation program the local district cares to go. Wisconsin used a variation of this concept between 1949 and 1969. Rhode Island, Alaska, New York, Maryland, Michigan, and a few other states initiated similar plans.

This open-end (shared cost or power) equalization plan for state and local financing of education is not really a new idea; in the early 1920s, Updegraff proposed such a plan, but it was too far ahead of the financial practices of the time. Though it has experienced limited adoption, it has resulted in a wider acceptance of state financial responsibility for education. It tends to be more acceptable in states that supply a high percentage of the total public education at state expense. In those states that exert only a minimum effort to finance education, the plan is ahead of their financial philosophy and therefore acceptance has been slow.

In its simplest terms, the open-end, or shared-cost, equalization plan proposes that a foundation program be established, with determination of the percentage of this program to be paid by each individual district and by the state. This percentage of state funds would be high for poor districts and low for wealthier ones. Once that determination has been made for each district, the same partnership ratio would be maintained to pay the total cost of the school program in each district. Each local board of education would still determine the levy to be made, thus preserving local control of education. There would be many variations and applications of this basic principle, but the fundamental premise of the program remains the same: state partnership throughout the complete finance program and thus a guarantee of a sound educational program for every district within the borders of every state.

Almost submerged and forgotten until recently, is this far-reaching policy, first enunciated by Harlan Updegraff, of an equalized matching formula that would combine equalization and reward for effort. In contrast to Cubberley, Updegraff would have the state help to provide the finances for improved programs but leave the expenditure decisions to the local school boards. Under the guidance and initiative of Paul Mort, this principle has been activated in a few of the states, but its use is not yet widespread.

The equalized percentage matching (EPM) concept was given strong support by the decisions in court cases of the 1970s, beginning with *Serrano* v. *Priest* (1971).[8] It lost support, however, with the Supreme Court's reversal of *San Antonio Independent School District* v. *Rodriguez* (1973)[9] when the principle of equalized percentage matching was not required in Texas and, by inference, in other states, depending on state constitutions. The majority opinion of the court stated that education was not a federal constitutional right; the responsibility for education should be left to lawmakers at the state level, through the democratic processes that elect them. However, the ruling does not disallow the equalized percentage matching concept. It is still valid, even if not required. Justice Powell, in speaking for the court, called on the states to not place a judicial imprimatur on the status quo and stated that the need for tax reform was evident.

Opponents of EPM fear that it may deplete state treasuries. Such reasoning remains the chief deterrent to adoption of this principle, since it shifts the authority for using state money for education from the state to the local district. Local control of the educational program rest with each individual school board. The concept is that the state must match what the local district decides; therefore, the state cannot escape its proportionate financial responsibility. Another concern of those who question the EPM principle are variable taxing distinctions. Generally, the property tax is a local tax. All but five states depend on the sales tax as their major source of revenue. Some states use the income tax, others the lottery, and still others the severance tax. When a state has an economic downturn, sales taxes, income taxes, and perhaps lottery and severance revenues diminish dramatically. The local districts can still tax property and may do so to such an extent that the state, because of its falling revenue sources, is not able to match what the local districts are entitled to under the EPM formula. Some states, including Michigan, repealed their EPM finance programs because the states believed that the EPM procedure had drained their already overburdened state treasuries.

Using the EPM principle, districts are encouraged to make adequate tax effort, for if they spend less, they lose more. Equalization is achieved in spending as well as in taxing. Payment by the state is in inverse ratio to the wealth of the district. If there were a ceiling placed by the state on how much the local districts can tax, the inequalities between wealthy and poor districts are lessened and the state treasury is less at the mercy of the school districts in determining how much state money will be required to fund the education program. Flexibility at the state level to amend its matching requirement during recessions help a state to control its own resources.

The Varying State Roles

Cubberley's emphasis on incentive grants for special purposes, with less stress on equalization, was a reasonably satisfactory approach to state school finance policy at one time. The states were using state property taxes to obtain revenue to be distributed to local school districts. Cubberley advocated state incentive grants to promote specific improvements, with less emphasis on equalization needs.

During the 1920s, the states generally gave up their state property taxes and placed almost complete responsibility on the local districts and the counties for administering the property tax. Equalization became a necessity to get state funds for financially weak school districts. Strayer, Haig, Mort, and their colleagues began to emphasize the foundation program and to minimize incentive grants.

During this period of change, the states found it imperative to modify somewhat their finance laws and practices to help solve the problems created by leaving all property tax responsibility with the local districts. Some of the main problems were (1) the need to provide the best possible equalization program to make equal educational opportunity available to all—even in the financially weak school districts created by this change in taxing procedure; (2) the need to provide fiscal independence for all school districts, in an effort to give school boards budgetary power and authority commensurate with their educational responsibility; (3) the need to provide assistance to local districts in their administration of the local property tax, in which they sought equality in assessing practices, efficiency in tax collection procedures, and other improvements; (4) the need to expand the tax base and provide some property tax relief by using nonproperty taxes where practicable; and (5) the need to give local districts greater autonomy in administering the property tax by reducing or eliminating state-imposed restrictions on levies.

Current Programs

Much progress has been made regarding state school finance policies. As the twenty-first century began, the states have used a number of different school finance plans. The most common system is the *foundation* approach, which may be considered a *minimum foundation program.* The basic concept of this foundation plan is much like a foundation for a building—that is, the state agrees to guarantee a minimal annual expenditure per student for all school districts in the state, regardless of local district wealth. Above the guarantee (or foundation), one district can build an extensive school system while a poorer district can construct only a modest program. The poorer school districts in states with lower per-student resources often rely on the courts to ameliorate inequitable polarity between rich districts and poor ones when this method is used (see Chapter 9).

An adjustment to the minimum foundation approach is the *modified foundation program.* Rather than allowing rich districts to build elaborate school systems while poor districts construct meager programs, other resources are given to the impecunious districts. There are usually two procedures that states use to provide for a more equitable school finance design. One method is to take money from the richer districts and transfer those funds to the poorer districts. In order to achieve this form of equity, states may use what has been called the "Robin Hood" approach or the "leveling down" method. States that believe that educational finance is the responsibility of school districts, not the state, take a portion of the richer districts' school resources and distribute the monies to poorer districts (customarily called *recapture*). For example, assuming there are 100 districts in a state, with a uniform tax levy, the funds generated in the top 50 districts would be shared with 50 poorer districts. This "leveling down" makes for an unimpressive and middling school strategy.

A second method is commonly called the "leveling up" plan. Assuming a uniform tax levy—such as in the "Robin Hood" approach—disparate districts in wealth generate vast differences in resources. Rather than taking significant monies from all the richer districts, the state would be required to appropriate additional *state funds* (usually from sales tax, income tax, lottery, or severance revenues) to the poorer districts. A few of the richer districts would contribute to the plan; the money from the richer districts would also commonly be called *recapture.* The science of the plan is arithmetic and the administration of it is ministerial in nature. The art of the plan is designing it so that just a few of the richer districts have sufficient funds to meet their resource needs from the uniform tax levy. Financial resources in the poorer districts, using this approach, would nearly reach the resources available in financially dominant districts. Even so, less affluent districts often litigate the support that the state or the richer districts provide because the effort is insufficient or may not meet the requirements of the state constitution and statutes.

The oldest, simplest, and most unequal method of providing state support to local school districts is the *flat grant.* The usual flat grant *modus operandi* is for the state merely to multiply the number of students in attendance (ADA) or membership (ADM) by a fixed amount. It may not take into consideration the wealth of the district nor the needs of the students. Another type of flat grant provides discretionary funding using criteria based on certain eligibility.

Some states have adopted the *district power equalization (DPE)* plan using the equalized percentage matching (EPM) principle. This is a more recent plan, in which the state pays a percentage of the local schools current expenditures in inverse ratio to the wealth of the district. Implementation of this method is to determine an optimum amount per student that the state guarantees. State support becomes the difference between what the district raises per student and what the state guarantees per student. In full state funding or nearly full state funding, the procedure is handled at the state level. In states where local districts have the authority to determine tax levy, which the state must match, a shared-cost philosophy is used, with the state providing proportionate financing through a statewide uniform tax. Such a design develops upper and lower limits and the state may only have the resources to provide a less than adequate statewide school program. Equalized percentage matching has most of the elements that are needed for an equitable plan for both students and taxpayers.

Still other states amalgamate portions of these methodologies into their school finance process. Some may have a minimum foundation program and add to that an element of EPM, which makes a modified foundation paradigm. Others add a flat grant to a minimum foundation program, which may have a modified foundation design. Most states use some equalization factors, or formula funding, to ensure a somewhat comparable educational opportunity.

Describing the complex school finance systems of the states is an exhaustive process. There are as many finance programs as there are states. However, some commonality exists in a type of basic or foundation program, a relationship between state and local contributions, and a design for categorical programs. In the fall of 2000, a survey conducted among the 50 states requested information on patterns for funding education. The data, as reported by the various state departments of education, indicated that 46 percent of the states used the foundation program, 18 percent used the modified foundation, 10 percent used power equalization, and 26 percent used other state equalization formulas.[10] Changes occur frequently as legislatures meet and courts influence interpretations of various state constitutions. Following are brief descriptions of seven state finance programs that will serve as examples of the diversity in plans.

California

The California school finance law has been greatly influenced by the *Serrano* v. *Priest* case (1971), Proposition 13 (1978), and Proposition 98 (1988). The *Serrano* v. *Priest* court case held that the school finance system, with its uneven tax burden and disparate spending patterns, was unconstitutional. "The California Supreme Court determined that the school finance system must be equitable for both students and taxpayers. The revenue limit scheme formed in 1972 was an attempt to freeze all districts' income at their then-current level of spending for general purposes."[11] Proposition 13 changed the nature of financing education in California. Prior to its passage, two-thirds of the revenue for education came from local sources; now about one-fourth does. Proposition 13 prevented local school districts from increasing property taxes, so the state became involved in distributing property taxes to schools and replacing revenue that was lost when those taxes were slashed statewide. Presently, "if the income from property taxes within a county rises, any increase that goes to schools will be matched by a decrease in the amount of state aid. Rising property taxes mean a lessened burden on the state's budget, not an overall increase in a district's revenue limit. School districts have no control over either the level of their revenue limit or the combination of local and state taxes that funds it."[12] Only the legislature can change the revenue limits of each district. Proposition 98 guarantees a minimum funding level, basically assuring that state support is the greater of the previous year's expenditure per pupil, adjusted for inflation and enrollment.

Funds for school districts are based on average daily attendance (ADA) of students. There is a minimum funding level guarantee for all children attending school in the state. The California Constitution mandates that schools are free and that students must attend from ages 6 to 16 or until they receive a diploma or equivalent. Nearly 5.5 million students attend public schools in California. The five areas of funding for fiscal year 1997 include $19.1 billion from state sales and personal or corporate income taxes, $8.6 billion from local property taxes, $2.3 billion from "local miscellaneous revenues, "projections of $638 million from lottery revenues, and $2.6 billion in federal funds.[13] Funds are allocated to local districts in these six general areas: revenue limits/equalization aid, categorical aid, class-size reduction, one-time grants, CTA-Gould back payment (a court case settlement), and school facilities.

More than 50 special programs are supported through the general fund and are restricted, or earmarked, in terms of dollars and numbers of students served. Nearly two-thirds of the categorical programs have been classified as "mega-items," which are combined within the budget to prevent the governor from vetoing individual programs and to allow local districts more flexibility in meeting their individual needs. Guidelines for each program must be followed. Districts have the option of transferring up to 15 percent from one mega-item program to another, but cannot exceed 20 percent for a given program. Mega-items constitute about 10 percent of the budget and include some of the following: desegregation, transportation, economic impact aid, instructional materials, year-round schools incentives, gifted and talented, educational technology, and class-size reduction.[14]

Special education is the largest categorical program, with about 10 percent of the students qualifying. The special education funding formula is complex, with state and federal dollars assuming 75 percent of the costs and local districts providing the other 25 percent.[15]

There are also voted leeway and bond election options. Some 75 percent of the total school money in California is apportioned for general purposes such as salaries, benefits, supplies, textbooks, and regular maintenance; 25 percent is for categorical aid.

Connecticut

The state goal for Connecticut is to provide excellence and equity in public school programs.[16] The State Board of Education, under Section 10–4 of the Connecticut General Statutes, is charged with:

> general supervision and control of the educational interests of the state, which interests shall include preschool, elementary and secondary education, special education, vocational education and adult education; shall provide leadership and otherwise promote the improvement of education in the state.... This charge includes implementing the Connecticut General Statutes and federal legislation relating to education. The State Board of Education has direct responsibility for the Department of Education, the Regional Vocational-Technical Schools, and the state's vocational rehabilitation services.[17]

This proviso of funding education is met through a cost-sharing method. In 1995–96, the state distributed over $1.5 billion in grants to towns and school districts to support public elementary and secondary education. In addition, the state directly supported 17 regional vocational-technical schools, managed and paid the employers' share of the state teachers' retirement system, and provided technical support and program monitoring for local school districts. Over the last 20 years, the state share of the total costs of public elementary and secondary education increased from less than 31.7 percent to 37.1 percent in fiscal year 1998. At the same time, the federal share decreased from 7 percent to 3.5 percent; some of the new state funding has been used to replace disappearing, federal dollars.

Until the late 1970s, the state distributed aid primarily on a flat per-pupil basis; every town received the same amount of aid per-pupil served. The current major state education aid program—the education cost sharing (ECS) grant—is designed to equalize each town's ability to finance a state-established minimum expenditure requirement (MER). In general terms, the ECS formula is not complex. For each town, the state pays a percentage of the total amount the town is required to spend under the MER program.

Formula Aid = State Percent MER

In 1995–96, the ECS grant was revised to include special education funding and population density factors. Certain special education entitlement grants were repealed.

MER = Foundation Need Students

The foundation, which is a *per weighted student* amount, began at $3,918 in 1989–90 and increased 7 percent annually. In 1995–96, the foundation was raised to $5,711, in part to accommodate the consolidation of special education into the ECS funding formula. The foundation remained at $5,711 for 1996–97. For 1995–96 and 1996–97, the MER was an all new aid type of formula. The amount of new aid under the ECS grant (1995–96 ECS minus 1994–95 ECS and special education entitlement), which could be positive or negative, was added to or subtracted from the *lower* of the 1994–95 MER cap ($5,280 1994–95 ECS need students) or the 1994–95 regular program expenditures (RPE). Since 1989–90, RPE has represented those categories of expenditures that count toward the MER—expenditures in regular education program areas. These expenditures are supported by local tax dollars, the state ECS grant, and federal Impact Aid.[18] The per-pupil expenditure in fiscal year 1998 was $8,580.

To raise local revenues for education, towns depend primarily on property taxes. The wealth of towns—the value of taxable property—varies widely. Each town's state percent is based on that town's wealth compared to the state guaranteed wealth level (SGWL). The poorer the town, the larger the state percent.

$$\text{State percent} = 1 \; \frac{\text{Town Wealth}}{\text{State Guaranteed Wealth}}$$

Due to the wide variation in local taxable property wealth, Connecticut now provides more aid to "poor" towns to help equalize the ability of such towns to finance education. In addition, almost all other state education aid grants, competitive as well as noncompetitive, have an equalization component. Generally, competitive grants give extra school construction money and pay larger reimbursement rates to "poor" towns.

Equalization is a goal for Connecticut in its Education Cost Sharing Program, which is designed to provide funds for education to equalize programs and reduce disparities in per-pupil expenditures. Tax rates are targeted for equalization as well. Funds are to be distributed in accordance with an equalizing formula establishing a minimum spending level in each town.

Categorical support is used for health services, school buildings, service centers, interdistrict programs, teacher standards, professional development and training for teachers, adult education, compensatory education, bilingual education, drug education, summer school, youth service bureaus, extended school hours, school to work, interdistrict cooperation, young parents, and early childhood programs.

Hawaii

Hawaii is the only state in the Union that uses full-state funding as its procedure for financing education. The state constitution centralizes the school system for all aspects of education, including maintenance and operation funding, facilities, and transportation. The Hawaii State Board of Education, which is also the local board of education (because there is only one school district in Hawaii), is responsible for the development of advisory budgets. The budgets are submitted to the governor's office, where they are reviewed. The state legislature also reviews the budgets and appropriates the funds with the approving signature of the governor. Control is with the governor and legislature. However, the Board of Education distributes the funds to the schools. The legislature and governor exercise their control over education by incorporating statutory provisions for specific expenditure items. This means that the number and type of teaching and administrative positions, discretionary funds for individual schools, and program support are preempted by the appropriations systems.

In fiscal 1998, the source of funds in Hawaii was as follows: personal income tax, 34 percent; excise tax, 44 percent; corporate income tax, 13 percent; hotel tax, 2 percent; and other miscellaneous taxes, 7 percent. Property tax is not used in Hawaii. About 23 percent of the state budget is allocated to education. In fiscal year 1998, the per-pupil expenditure was $5,663 with a membership (ADM) of 187,653.

Iowa

The 1989, Iowa legislature enacted a new school finance law that became effective July 1, 1991. It was due to sunset July 1, 2001, but was extended. The law provides for a student-driven formula. Students are counted on the third Friday of September. Weighting factors (WPU) are used. The enrollment of one year is used in the subsequent year. For example, the student count on the third Friday of September 2001 will be used to determine the 2002–03 budget. If significant enrollment shifts occur, the state can adjust the budget to meet exigencies.

Supplementary weightings for special education, pupil sharing, teacher sharing, limited English proficiency, and students in poverty are used. Local districts must levy a uniform tax of $5.40 per $1,000 assessed valuation. The state provides the difference between 87.5 percent of the state cost per pupil for the regular program and 87.5 percent for special education. These state funds come from state income or sales tax.[19] The local district is required to levy an additional property tax to make up any remaining funds that are necessary to meet the approved budget.

Iowa's education budget is made up of 52.0 percent from state government, 42.7 percent from local government, and 5.1 percent from the federal government. Sources of local tax revenue are from property tax, income surtax, and other miscellaneous taxes. Categorical aid is available for transportation assistance; removal, management, or abatement of environmental hazards; dropout prevention; gifted and talented programs; programs for non-English speakers; students at risk; early childhood education; educational excellence; and instructional support. Enrichment levies can be utilized for instructional support, physical plant and equipment, adult service, and management.

Louisiana

The salient feature of the Louisiana public education finance system is the minimum foundation program (MFP). Its goal is to ensure a basic minimum education program for all its public elementary and secondary schools. The cost of the basic MFP in Louisiana is based on two major components: (1) regular education and (2) special education. The costs of these two programs are summed to obtain the total MFP cost for each school district.

The minimum foundation program was dramatically revised and approved in 1992. The new MFP represents a basic philosophical change from a categorical, resource-driven distribution to one based on students and characteristics of students, with the flexibility to meet particular students' needs as determined by local school districts.

Louisiana has 66 local school systems divided into five groups called *quintiles.* The determination for the tax for the school finance program is based on the state Representative Tax System (RTS), a formula that measures taxpayer capacity and effort established by the state Advisory Commission of Intergovernmental Relations. Table 7.1 lists the revenue and expenditure variables in the quintiles that utilize the required RTS factor.

Note that the fiscal capacity in the lowest quintile is $849 and the highest is $2,516. The total revenue varies from $5,739 to $6,752 and the total expenditures range from $5,622 in the lowest quintile to $6,542 in the highest. The average revenue provided by the state is 50.3 percent; local is 38.1 and federal is 11.7 percent—exceeded by only four states: Mississippi, New Mexico, North Dakota, and Alaska. The property tax mill levy ranges from 34.06 mills in the lowest quintile to 31.82 in the highest.

School districts in Louisiana have considerable leeway to raise local revenues to supplement the state's contribution. The flexibility afforded school districts in raising local revenues from the property tax and the sales tax serves to increase interdistrict differences in local revenues. As in most states, there is considerable variation among school districts in Louisiana in fiscal capacity or "ability" to finance schools.[20]

Michigan

A reformation of sorts for school finance came about during 1993 and 1994 as the Michigan legislature and governor approved legislation that dramatically shifted the sources of funding for local school districts. Prior to fiscal 1995, local public schools received the majority of their funding from local property taxes. At the time, the statewide average mill rate on all property was just under 34 mills.[21] However, dissatisfaction with inequities in funding caused by wide variations in the property tax base from district to district brought about an enactment of several laws that shifted the revenue sources for public education. The School Aid Act and related codes[21]

> marked the beginning of the foundation grant approach to State school aid payments. This was a departure from the district power equalizing approach that had been in effect for almost twenty years. The school finance reform plan also diminished the State's reliance on local school operating property taxes as a source of funding for K–12 public schools. Although some local school operating property taxes were reinstated, they were significantly reduced for most homeowners and businesses in the 558 school districts in Michigan.[22]

Under the new formula, property tax revenues for education were reduced from over 60 percent to approximately 32 percent. New revenue sources for funding public schools are generated from state taxes, with the most significant change in the state sales tax, which increased from 4 to 6 percent. In addition, the state has levied a *state property tax* of 6 mills. The total school operating property tax is now 6 mills on most homes and 24 mills on most business and nonhomestead property.

TABLE 7.1 Average Per-Pupil Amounts in Louisiana for Selected School Finance Revenue and Expenditure Variables by RTS Wealth Quintiles: 1998–99

Description	State Average	Lowest	Second	Third	Fourth	Highest
Quintile Characteristics						
No. of Districts	66	25	16	6	9	10
No. of Pupils	752,525	150,655	150,517	115,601	178,879	156,873
RTS Factor	1.00	0.54	0.79	0.91	1.12	1.59
Fiscal Capacity	$1,578	$849	$1,243	$1,433	$1,763	$2,516
Revenue						
Total Local	**$2,309**	**$1,292**	**$2,131**	**$2,310**	**$2,452**	**$3,294**
Property Tax	$822	$369	$661	$1,075	$596	$1,143
Sales Tax	$1,214	$665	$1,177	$969	$1,285	$1,874
Total State	$3,143	$3,648	$3,414	$3,150	$2,850	$2,725
MFP	$2,904	$3,389	$3,185	$2,924	$2,624	$2,471
Total Federal	$719	$799	$622	$639	$772	$733
Total Revenues	**$6,171**	**$5,739**	**$6,167**	**$6,099**	**$6,074**	**$6,752**
Equivalent Tax Rates						
Property	40.64M	34.06M	44.88M	63.92M	42.16M	31.82M
Sales	1.73%	1.73%	2.03%	1.49%	1.62%	1.77%
Expenditures Total Instruction	**$3,983**	**$3,678**	**$3,951**	**$3,995**	**$3,975**	**$4,308**
Total Support	**$1,749**	**$1,676**	**$1,696**	**$1,779**	**$1,640**	**$1,976**
Facility Acq. & Constr. Serv.	**$385**	**$268**	**$366**	**$425**	**$586**	**$258**
Total Expenditures	**$6,117**	**$5,622**	**$6,013**	**$6,199**	**$6,201**	**$6,542**

Note: Quintiles reflect weighted averages based on Oct. 1 adjusted student membership. Quintiles are based upon the FY 1998–99 RTS factor. Fiscal capacity per pupil reflects number of "weighted" students in the prior year (i.e., K–3, At Risk, Remediation, Voc. Ed.)

Tax data: Circular 1061.

Source: Annual Financial Report, Louisiana Department of Education, updated to 1999.

In shifting the program funding, effort was made to provide the same level of per-pupil revenue the local districts had the previous year. The reduction in local tax revenue was compensated by an increase in state revenue. Districts benefit from an increase in funding each year; however, as part of an equalizing factor, those districts with the lowest revenues receive the greatest increase, and those at the highest receive the smallest increase. Most districts levy taxes at the same rate, so there is no longer an association between a state funding guarantee and the local mill assessment. Local districts have a greater voice in implementing specific programs, because categorical funds previously earmarked are provided in a foundation grant that leaves flexibility at the local level to continue, expand, or delete programs that best fit their needs.[23]

The state share of revenue for public elementary and secondary schools was more than $88 billion and the local share was $3.7 billion in fiscal 1998. The state provided 65.6 percent of Michigan's finance program. The local share was 27.8 and the federal portion was 6.6 percent. The foundation philosophy in the state is as follows:

> *Purpose.* To provide funding for the state portion of the foundation allowance.
>
> *Payment.* A foundation allowance is a per-pupil amount that is determined for each local school district. The maximum revenue a district may receive from the foundation is equal to the foundation allowance multiplied by the pupil membership count for the district.
>
> *State Portion.* The difference between the product of the district's foundation allowance per pupil and the district's pupil membership, less the local revenue on 18 mills or the number of mills levied in 1993, whichever is less.
>
> *Local Portion.* The local share of the foundation allowance is raised from limited local school operating mills levied as provided in the Revised School Code.[24]

Utah

The Constitution of Utah indicates that "the legislature shall provide for the establishment and maintenance of a uniform system of public schools, which shall be open to all children of the State, and free from sectarian control."[25] In order to accomplish that mandate, the state operates a school finance foundation program that guarantees a certain basic level of expenditure for each student with a minimum uniform local property tax *rate* that each district must levy. In fiscal 2001, the required amount was 0.001845. The following example shows how this levy affects a local district in meeting its obligation toward the basic program:

District	WPUs	WPU Value	Basic Guarantee (millions)	Assessed Value (billions)	Rate	Local Share (millions)	State Share (millions)
A	18,000	$2,006	$36.11	$2.49	.001845	$4.59	$31.52
B	5,600	$2,006	$11.23	$3.40	.001845	$6.27	$4.96
C	1,250	$2,006	$2.50	$1.60	.001845	$2.95	(.45)

The value of the WPU in fiscal 2001 was $2,006. In District A, the basic state guarantee was $36.11 million (18,000 $2006.), with the local contribution raising $4.59 million ($2.49 billion .001845). The state contribution was $31.52 million). District C only has 1,250 WPUs but has a healthy assessed valuation of $1.6 billion, generating $2.95 million toward the minimum program, or an overage of $.45 million. This surplus is *recaptured* and becomes a part of the state Uniform School Fund. Of the 40 districts, 2 to 4 each year usually raise a greater amount locally than is required for their guaranteed minimum program.

The taxpayer with a $100,000 home assessed at 55 percent of market value would have an assessment of $101.48 ($55,000 × 0.001845) toward the state basic program. State revenues to guarantee the foundation program come from the Uniform School Fund. The local property tax toward the basic program is only a portion of the overall local contribution needed for the operation of schools. Other mills with limits may be assessed for capital outlay, debt service, recreation, tort liability insurance, transportation, a voted leeway, and a board leeway. The average property tax for public schools in the state for all districts is about $690 on a $100,000 home.

The maintenance and operation budget responsibility for each student becomes a function of the total taxable wealth of the state and is not limited to the taxing ability of each local school district. Average daily membership (ADM) is used in the calculations. Pupils are weighted to reflect the cost associated with providing special services. For example, District A may have only 14,800 *regular* students but generate an additional 3,200 WPUs from other sources, including special education. Table 7.2 lists the basic programs at the state level that are funded with WPUs. Note Section D lists related programs that are funded in specific amounts by the legislature each year and are not part of the WPU formula.

State aid is provided by income tax, which, by constitutional fiat, is totally earmarked for the "schools established by the legislature."[26] Other sources of funds come from school land income, corporation franchise tax, mineral production, and other minor resources. If needed, revenue is transferred from the general fund in which the state sales tax is the largest revenue source.

State Financial Support

The budgets of the various states are influenced greatly by the number of students to be educated and the revenue available. The numbers in Table 7.3 show the relationship between the percent the state contributes to the school finance program and the expenditures per student by state. The percent the state spent on education varies from 89.5 percent in Hawaii to 7.4 percent in New Hampshire. Expenditures per pupil range from $9,588 in New Jersey to $3,783 in Utah.

Passage of time has increased the acuteness and difficulty of school finance problems, but it has also provided some answers. The principles and the theories to mold a justifiable state-local relationship in financing education have been developed and proven; they should now be utilized.

Although people in general favor additional state financial support for education, few would like to see greater state control with attendant elimination of local control.

TABLE 7.2 Utah State-Supported Minimum School Program, Fiscal 2000-2001

Local Revenue:

A. Basic Tax Levy	$189,329,826	Assessed Valuation	$107,997,000,000
B. Voted Leeway	$110,412,316	Weighted Pupil Unit Value	$2,006
C. Board Leeway	$ 31,970,524	Tax Rate	.001845
D. Total Local Contribution	$331,712,66		

I. Basic School Programs	2000–01 WPUs	$ Amount @ $2,006
A. Regular Basic School Programs		
1. Kindergarten	20,222	$40,565,332
2. Grades 1–12	426,422	855,402,532
3. Necessarily Existent Small Schools	7,080	14,202,480
4. Professional Staff	41,394	83,036,364
5. Administrative Costs	1,655	3,319,930
Total Regular Basic School Programs (1 to 5)	496,773	$996,526,638
B. Restricted Basic School Programs		
1. Special Education—Regular Program		
(a) Special Education Add-Ons WPUs	52,697	$105,710,182
(b) Self-Contained WPUs	12,299	24,671,794
2. Special Education—Preschool	5,038	10,106,228
3. Extended Year for Severely Disabled	237	475,422
4. Special Education—State Programs	1,350	2,708,100
Total Special Education (1 to 4)	71,621	$143,671,726
5. Applied Technology Education—District	19,464	$39,044,784
6. Applied Technology Education—District Set-Aside	989	1,983,934
Total Applied Technology Education (5 to 6)	20,453	$41,028,718
7. Accelerated Learning Programs	3,841	$7,705,046
8. Adult Education Programs	3,407	6,834,442
9. Youth At Risk Programs	10,039	20,138,234
10. Career Ladders	24,253	48,651,518
11. Class Size Reduction (K–8)	29,577	59,331,462
Total Other Restricted Programs (7 to 11)	71,117	$142,660,702
Total Restricted Basic School Programs	163,191	$327,361,146
C. Unrestricted Basic School Programs		
1. Local Program	11,549	23,167,294
Total Local Program	11,549	$23,167,294
TOTAL BASIC SCHOOL PROGRAM WPUS (A TO C)	671,513	$1,347,055,078

TABLE 7.2 Utah State-Supported Minimum School Program, Fiscal 2000-2001

D. Related to Basic Programs	
1. Social Security & Retirement	$253,325,728
2. Pupil Transportation to & from School	53,236,772
3. Contingency Fund	419,246
4. Incentives for Excellence	614,911
5. Regional Service Centers	1,172,733
6. Staff Development	1,965,577
7. Comprehensive Guidance	7,420,659
8. Educational Technology Initiative Maintenance	8,970,322
9. Families, Agencies, Communities Together	1,250,670
10. Alternative Language Services	3,328,564
11. Character Education	397,680
12. Highly Impacted Schools	4,873,207
13. School Nurse Program	496,949
14. Technology, Life, Careers and Work Based Learning	2,235,000
15. Truancy Intervention and Prevention	150,000
16. Transportation Levy	225,000
17. Reading Initiative	5,000,000
18. Reading Performance Improvement Scholarship Program	9,000
19. Assessment and Accountability (HB 177)	3,500,000
20. Alternative Middle Schools	2,000,000
21. State Contribution to School Districts	1,113,100
Total Related to Basic Programs	$351,705,118
II. Special Purpose Programs	
A. Experimental—Developmental Programs	5,933,056
B. School Land Trust Program	4,775,000
TOTAL SPECIAL PURPOSE PROGRAMS	$10,708,056
TOTAL ALL PROGRAMS BEFORE LEEWAYS	$1,709,468,252
III. Board and Voted Leeway Programs	
A. Voted Leeway Program	$121,242,797
B. Board Leeway Program	36,111,863
Total Board & Voted Leeway Programs	$157,354,660
TOTAL MINIMUM SCHOOL PROGRAM (I TO III)	$1,866,822,912

Source: Utah State Office of Education, Finance and Statistics.

TABLE 7.3 **Percent of State Education Budgets Spent on Education: Expenditure per Pupil by State**

State	Percent	Expenditures per Pupil
United States	48.00	5,923[1]
Alabama	63.2	4,595[1]
Alaska	63.4	8,231
Arizona	45.0	4,413
Arkansas	60.1	4,535
California	60.0	5,260[1]
Colorado	44.1	5,312
Connecticut	37.1	8,580[1]
Delaware	64.8	7,135
District of Columbia	0.0	8,048
Florida	48.8	5,360
Georgia	53.7	5,369
Hawaii	89.5	5,633
Idaho	63.5	4,447
Illinois	27.0	5,940
Indiana	50.5	6,161
Iowa	52.0	5,738
Kansas	56.2	5,508
Kentucky	62.9	5,155
Louisiana	50.3	4,724[1]
Maine	47.2	6,327
Maryland	38.8	6,755
Massachusetts	39.9	7,331
Michigan	65.5	6,932
Minnesota	55.0	6,005
Mississippi	55.5	4,039
Missouri	40.3	5,034
Montana	47.4	5,481
Nebraska	32.1	5,848
Nevada	31.9	5,084
New Hampshire	7.4	5,920
New Jersey	38.7	9,588
New Mexico	73.1	4,682
New York	39.4	8,525
North Carolina	65.4	4,929
North Dakota	41.4	4,808
Ohio	40.7	5,935
Oklahoma	62.3	4,817
Oregon	52.6	5,920
Pennsylvania	39.1	7,106
Rhode Island	40.6	7,612
South Carolina	52.5	5,050[1]
South Dakota	35.5	4,375
Tennessee	48.5	4,581[1]
Texas	40.3	5,267
Utah	62.8	3,783
Vermont	28.6	6,753
Virginia	32.5	5,788[1]
Washington	67.1	5,734[2]
West Virginia	63.0	6,076
Wisconsin	53.1	6,796
Wyoming	48.5	5,971

[1] Value contains imputation for missing expenditure data.

[2] Value affected by redistribution of reported expenditure values for missing data

Note: Details may not add to total due to rounding.

Source: U.S. Department of Education, NCES, Common Core of Data, National Public Ed. http://nces.ed.gov/pubs99/1999301.

What, then, are the main purposes of state support? Several have been emphasized and have had their advocates; few are controversial. The following are some of the most important of these:

1. Providing state support to promote local school improvements was championed by Cubberley. It is particularly important to have state support for local educational programs that are too expensive for the weaker school districts to finance.

2. State funds are needed to provide an equitable educational opportunity for all children of the state. Strayer, Haig, and Mort stressed the need for state-supported foundation programs for this purpose.

3. State support is required to provide incentives for greater local tax effort. Mort's work in Rhode Island and New York, conceived around the Updegraff equalized matching formula concept that combined equalization and reward for effort, illustrates the practical result of this form of state financial support.

4. State support broadens the tax base of school support. To the local property tax revenues, the state adds funds that have been collected from many kinds of nonproperty taxes. Thus, the burden to property taxpayers for educational services is made lighter, and more elements of the private sector are involved in financing education.

State Ability to Support Education

Measurement of a state's ability to support education is difficult. Local districts must confine their main tax effort to the property tax, but the states have no such limitations. Sales taxes, income taxes, and many others are available for state use, thereby complicating the problem of measuring and comparing total tax effort and ability.

The ability of the states to support education varies greatly, regardless of the criteria or devices used in its measurement. Here again, as with measurement of local ability, the question arises as to whether taxpaying ability should be measured in terms of potential revenues from all sources, many of which are not legally authorized, or in terms of the tax system that is authorized and operable. Does a state have the ability to produce any given amount of school revenue from a state sales tax if such a tax is not being used? Another unanswered question is related to the relative economic effects of varying forms and kinds of taxation. For example, what property tax rate is equivalent to a 6 percent sales and use tax?

Some old ways of measuring state taxing ability have outworn their usefulness. An example is the use of per-capita wealth as measured by the assessed or the real value of taxable property within the state. The deemphasis or complete elimination of the state property tax and the introduction of sales and state income taxes have resulted in the demise of this method of comparing the abilities of states to finance education.

The most common method now used to compare the financial ability of states to support education seems to require the inclusion of income. The close relationship between some state income tax systems and the federal income tax program makes determination of total income relatively easy. Relating the total personal income to the total population does not consider the disparity among the states in the ratio of school-age children to total population. Using the average daily membership or average daily attendance of pupils in public schools does not consider the wide variation among the states in the numbers of pupils attending private or parochial schools. Some authorities in the field support the seemingly justifiable method of using total personal income minus total federal income taxes paid by the people of a state divided by the total number of children of school age as the best method of measuring state ability to pay for education. Still others advocate complex combinations of data and mathematical formulas, which are difficult to determine but which, once obtained, lend some validity to such methods of comparing the ability of states to finance education.

Since the ability of the 50 states to support education naturally varies, and since each spends a different amount per child being educated, it follows that their taxing efforts also vary. Those less wealthy states whose citizens choose to have good educational programs must necessarily make a greater effort than their more fortunate counterparts in more wealthy states. *Effort* is an elusive term, requiring complicated means of measurement. The important point is that real differences continue to exist among the states in their ability to finance education.

Summary

Early settlers apparently recognized the importance of education to the future of the United States, but they left the various states with the responsibility for its implementation and development. Education was not referred to specifically in the United States Constitution; interpretation of the Tenth Amendment delegated that responsibility to the individual states. Each state in the Union has interpreted its responsibility differently depending on language in their state constitutions and enabling legislation. Hence, there is no single public school system, but rather 50 distinct systems.

The states have developed their school finance systems largely by trial and error, with considerable difficulty and sacrifice. Public schools were originally financed largely by land grants, fees, tuition charges, and other nontax funds; as schools became more numerous, property taxes were introduced as a source of local revenue.

The Northwest Ordinances of 1785 and 1787 and later land grants did much to help the states develop public education. At first, local districts financed education with little or no state assistance, and there were vast differences in a district's ability to provide quality education programs. By the early part of the twentieth century, the states were making grants to local districts, for the most part based on the philosophy of Ellwood Cubberley. A quarter of a century later, the equalization principles of George D. Strayer and Robert M. Haig were being applied to school finance systems. Paul Mort and others did much to improve the equalization concept during the middle years of the twentieth century. Currently, there are a great variety of methods to allocate funds to local districts. Describing the finance systems of the 50 states is complex. Some commonalities include a basic or foundation program, a relationship between state and local contributions, and utilization of the categorical funding method. The trend has been toward greater state responsibility for financing public education, resulting in greater state control and an erosion of the power and authority of local school boards.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *flat grants, foundation program, minimum program, modified program, EPM, DPE, WPU, effort, level up, level down, categorical aid, basic program, recapture, rate bills.*
2. Trace the development of the school finance program in your state through the various stages, as outlined in the text. Indicate areas or aspects of the program that may still be in some of the earlier stages, such as state grants per pupil or other nonequalizing grants.
3. Develop your own classification or history of school finance. Indicate what you consider to be the most desirable school finance system that could be established.
4. Develop arguments for and against full state funding of education.
5. Propose a program of district power equalization that you think would be desirable for your state.
6. Relate state financing of education with state control. Is it possible to have local control of education with complete state financing? Justify your answer.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER

8

Federal Interest in Education

No one can predict what the federal role will become in the twenty-first century, but everyone knows that a new pattern will develop—not systematically, perhaps, but inevitably.

—Pat Galvin, 2002

As the twenty-first century began, the determination of ideal federal-state-local relations in financing education had not yet been accomplished. The federal interest in education is dictated by ever-changing circumstances with political, racial, and religious overtones. The extent of this federal interest divides citizens on emotional and philosophical grounds.

Generally, greater interest at the federal level comes when a perceived national need is identified and the federal establishment reacts to that need. When the need to colonize the Northwest Territory was seen, the Northwest Ordinances were passed. As settlers moved West, the federal government believed it was essential to have institutions of higher education that would focus on agricultural and mechanical improvement—hence, the Morrill Act established land-grant colleges. During World War I, in order to develop industrial capacity, vocational education was deemed to be in the national interest. During the Depression of the 1930s, educational work-study programs were established through federal legislation. The G.I. Bill followed World War II as the nation struggled to respond to postwar problems. When *Sputnik* was launched by the Soviets, a national interest in science, math, and foreign languages emerged with subsequent legislation. The Great Society concept established programs for Title I compensatory education, disability education, and Head Start.

Historical Role of the Federal Government

Historically, the federal role in education has been minor; its function was to conduct research, disseminate information, and provide advisory assistance to the other two levels of government—to exercise interest in education without direct responsibility or control. At various times, however, the federal government has provided some financial support for education, usually eschewing extensive federal controls in the process. In its forays into providing financial assistance, the government has sensed a certain national need, usually leaving decision making and administrative controls with the individual states.

The legal relation of the federal government to education is largely indirect. Federal courts rule on alleged violations of constitutional rights by the states and their local school districts. However, the impact of such federal court decisions on education, even though indirect, has been of great consequence and will continue to be so. The nationwide effect of the Supreme Court's desegregation ruling in *Brown* v. *Board of Education* (1954)[1]—as well as the impact of Title IX of the Education Amendments of 1972 (sex discrimination), Section 504 of the Rehabilitation Act of 1973 (discrimination against the disabled), and court cases at various levels—are excellent examples of how indirect controls may strongly influence schools and their organizational and administrative operations.

A cursory look at the statements of former presidents puts in perspective the changing nature of federal interest in education finance. In the 1700s, both George Washington and Thomas Jefferson were committed to education. Washington called for a national university and Jefferson considered helping establish the University of Virginia as one of his greatest accomplishments, although neither president contemplated financial aid to the states' public schools.

In the 1880s, little interest was shown, although President Rutherford B. Hayes called for "Congress to appropriate money to supplement the educational budgets of the states to promote free popular education."[2] President Chester Arthur appealed for federal aid to education, suggesting that "the government distribute money to the states on a ratio based on the amount of illiteracy in each state."[3]

It was not until the last half of the 1900s that presidents spoke often of education finance, when, in 1950, President Harry Truman called for federal aid to education while asserting his opposition to federal control of schools. Many believed that federal aid and federal control were inseparable. President Dwight Eisenhower called for federal aid to school construction. He believed that in order to avoid federal control, the federal government's role should be in the capital outlay portion of educational expenses, stating that "bricks and mortar will not have a dilatory effect on instruction in the classroom."[4] President John Kennedy spoke often of the importance of education and favored general aid to states for school construction and teacher salaries but insisted that federal aid to education must be for both parochial and public schools.[5] Legislative packages for federal assistance to education "were developed in 1961, 1962 and 1963" but, according to Clark and Astuto, "failed in Congress primarily because of the question of aid to parochial schools and secondarily to opposition to federal involvement in education."[6]

Education was a central figure of President Lyndon Johnson's Great Society programs, which "helped build more schools and more libraries... than any single session of Congress in the history of the Republic"[7] and instituted Title I as the largest federal aid program extant. President Richard Nixon was philosophically opposed to much of the Great Society. President Gerald Ford, while in Congress, opposed increased aid to *education.*[8] *President Jimmy Carter worked tirelessly to establish the Department of* Education as a cabinet-level department of government. President Ronald Reagan called for the elimination of the Department of Education and the creation of a National Institute for Education, where the federal government can "put their money on a stump and then walk away," thereby assuaging any federal control. His criticism of federal control "was illustrated by the department's attempt to instigate federal rules over the nation's teaching practices for children whose primary language was something other than English."[9] President George Bush held an education summit in Charlottesville, Virginia, at which national performance goals were agreed to by the governors of the states, and in the 1991 State of the Union Address, Bush endorsed the six goals. President William Clinton, who had been asked by President Bush to cochair the national summit as Governor of Arkansas, when elected president called for "the restoration of education to the position it had in the federal budget in 1980, increases funding for early childhood education and called for a commitment to education worthy of this great nation."[10]

President George W. Bush declared in 2001 that education needed additional federal support tied to accountability and local control. He suggested a $13 billion increase in federal interest in education. But he maintained that the connection between money and accountability must include tougher enforcement of high standards for teachers, students, and schools. He proposed that Title I funds that go to schools be given directly to parents if failing schools showed no improvements three years in a row. Under his plan, parents could use $1,500 of Title I monies per student for private school, tutoring, or transportation to a better public school. He also asserted that $3 billion should be appropriated to build more charter schools. Charter schools, he said, represent a promising and politically palatable compromise between the status quo and more radical solutions that some propose.

Constitutional Role

The Constitution of the United States provides indirectly for the federal government to exercise a minor role in the three-way partnership of government responsibility for education. The Tenth Amendment has been interpreted as legal sanction for state responsibility for this important service of government. The framers of the Constitution viewed with fear the possibility of a nationally controlled school system. Their distrust of a strong central power was a break from the philosophy of government in the European countries. They feared concentration of power, whether it was political or religious. The colonists' main purpose in coming to America—political and religious freedom—seemed to be antithetical to strong centralization of power in a national unit of government.

Very early in the nation's history, the federal government began a policy of deference to the states in matters of education. Even before the Constitution was ratified, the government in power passed the Northwest Ordinances, which provided for land grants to new states to foster education. These grants provided some incentive for the settlement of western lands and was the first act of federal aid to education. As the colonies became states and relinquished their land claims, the newly formed federal government began to establish a policy for their disposition as gifts to the newly formed states to finance state-sponsored public education systems.

A Sound Partnership

Even the severe critics of education in the United States recognize that the state-local-federal partnership in education worked well for over a century. State constitutions and court decisions at all levels recognized and supported this relation. The public schools, recognized as one of the truly great contributions of this country to the world, were developed under the aegis of this partnership system. Their vitality and accomplishments attest to the validity of this relation.

Thus, for most of the duration of the republic, the constitutionally authorized advisory role of the federal government was accepted and followed, with only minor exceptions. The grass-roots level of school control that has been so vigorously defended seemed to be working well. The United States became a leader in many areas of science and culture; the schools played an important part in that achievement. Even the perennial problem of financing education was solved in most areas of the country with little or no involvement of the federal government.

To be sure, the federal government vacillated in its role. Periodic—even spasmodic—innovations and policy changes came and went without panic on the part of those who were dedicated to preventing change in the federal role. To a great degree, the occasional venture of the federal government into educational matters represented the philosophies of those in positions of power in the federal hierarchy rather than real changes in the educational philosophy of society in general.

In recent years, the generally accepted roles of the three levels of government in sponsoring and financing education have been in a state of flux. In particular, the role of the federal government has become more enigmatic; its relation to state and local government has been in an unprecedented state of confusion and controversy. To a great extent, the increasing role of specific national interests and of the federal government has come as a result of national advocacy groups convincing the federal government of the accelerating disability of the other two levels to fulfill their traditional responsibilities in the educational structure.

Federal Involvement: A Fluctuating Role

The role of the federal government in education during the twentieth century can best be described as fluid. When the United States entered World War I, the national government became actively involved in vocational education. It was determined to be necessary to meet the challenges of the war effort. The 1920s was a decade of minor involvement, except for efforts in federally operated schools for American Indians.

While the nation was in the depths of a depression in the 1930s, federal interest was accelerated to meet the demands facing an impoverished nation. During this period, legislation established the Federal Surplus Commodities Corporation to distribute surplus food to the schools. The National Youth Administration and the Civilian

Conservation Corps were established to provide work and training for youths. The Public Works Administration made grants available and extended loans for school construction.

During World War II, the country was focused on funding the war effort, leaving few resources for educational programs. However, in 1943, the Vocational Rehabilitation Act was passed, and in 1944, the G.I. Bill was enacted for veterans to receive vocational and educational opportunities.

After the war, Congress and the president made efforts to provide general aid. Many proposals surfaced, but broad federal support could not be engendered. Issues such as no federal funds to segregated schools and school districts, church-state ramifications, and fear of federal control thwarted many funding efforts.

With the launching of *Sputnik* by the Russians in 1957, there was great interest at the federal level to rally support for education. The National Defense Education Act (NDEA) was passed, which provided revenue for math, science, foreign language, media, and counseling services.

A decade later, in 1965, the Elementary and Secondary Education Act (ESEA) was passed with the primary tenet (Title I) being to provide federal support for districts and schools in low-income areas, including pass-through provisions to private schools.

In 1972 and 1978, amendments that slightly modified the 1965 Act were passed, adding some programs and increasing allocations for education. Federal support shifted when Congress passed the Education Consolidation and Improvement Act (ECIA), which took effect in July 1982.

In 1980, recognition was given to education at the federal level with the establishment of the Department of Education. Two years later, the cabinet position was in jeopardy as a new administration proposed that it be disbanded. Many attribute the survival of the Department to the "A Nation at Risk" report developed under then Secretary of Education, Terrel H. Bell.

The renewed interest in education had its effect. Reports by members of the committee that wrote "A Nation at Risk" were given at 11 sites throughout the United States. It was made clear that the proposed reforms would not be funded by the federal government; it was stressed that the responsibility rested with the states and local entities.

In 1988, the Hawkins-Stafford School Improvement Amendments were passed. These amendments were really a synthesis of federal interest in education, for they changed and repealed numerous laws and programs, including the Education Consolidation and Improvement Act. Magnet school programs, science and math teacher training, foreign language programs, and impact aid were all substantially amended. The Amendments continued Title I compensatory education and created programs for gifted and talented, high school basic skills, and dropout prevention.

In 1994, two federal education acts were passed—the GOALS 2000: Educate America Act and the Improving America's Schools Act, which reauthorized the Elementary and Secondary Education Act. The basis of the GOALS 2000: Educate America Act was the development of state plans to meet eight goals that were determined to be in the national interest.[11] The Improving America's Schools Act's primary tenets were continuing compensatory education, identifying children "most in need," using a new formula to allocate Title I money, and authorizing and/or reauthorizing several other categorical programs.

In 1995, Congress passed the Unfunded Mandates Act, which disallowed the federal government from imposing requirements in the future on states and local governments, including school districts, for which no allocation of funds followed. Accord in the funding of Title I was reached when "weights that favor high-poverty areas" are used and districts with poverty rates of less than 5 percent eliminated (2 percent in fiscal 1997) as well as separate appropriation to reward states "moving toward finance equity and states that spend high amounts on school relative to their per capita[l] [sic] income."[12]

In 1997, President William Clinton called for an education bridge to the twenty-first century, which he entitled the Call to Action Plan.[13] The 10-point plan resulted in little action by Congress. However, a modest appropriation continued the 1994 GOALS 2000 initiative. By 1999, that appropriation had reached $461 million.[14] In 2000, President Clinton's request of Congress did not include funding for GOALS 2000. The Administration proposed to place it in a separate category because GOALS 2000 was "an important factor in promoting reform and the Administration's proposal would build on and expand these efforts."[15]

In 2000, Congress was scheduled to reauthorize the Elementary and Secondary Education Act (ESEA) of 1965. The administration's proposal as introduced was the Access to Excellence in Education for the 21st Century Act "to reauthorize and make improvements to Titles I, VII and X of such Act, and for other purposes."[16] Congress titled their reauthorization of ESEA as the Educational Opportunities Act "to extend programs and activities under the Elementary and Secondary Education Act of 1965"[17] with the purpose being "to support programs and activities that will improve the Nation's schools and enable all children to achieve high standards."[18] The law increased the amount of money authorized for the states and allowed for additional flexibility. The major funding was allocated to Title I—Helping Disadvantaged Children Meet High Standards. Other secondary features of the law were Professional Development for Teachers; Enrichment Initiatives; Safe and Drug-Free Schools and Communities; Educational Opportunity Initiatives; Innovative Education; Bilingual Education; Impact Aid; Indian, Native Hawaiian, and Alaska Native Education; and some additional general provisions and amendments to other laws such as a limited commitment to GOALS 2000, Education for Homeless Children and Youth, and Albert Einstein Distinguished Educators programs.[19]

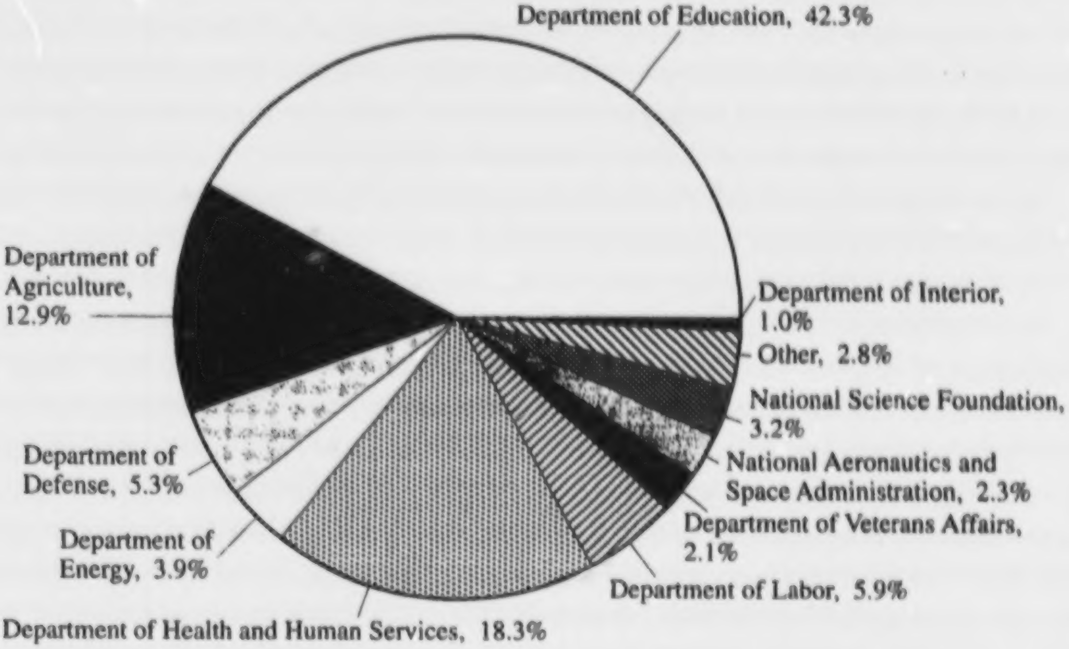
The law included a U.S. House of Representatives' insertion into the legislation that allowed 10 states to block-grant Title I funds with other funds. Some viewed this action as a mistake, "The national government has found a way [in Title I] to work with state and local officials to improve the education of the disadvantaged, while respecting local control. Instead of creating a block grant with these funds, Congress and the president must renew Title I and expand it. Title I has made important improvements in the education of disadvantaged children."[20] Critics of Title I who inserted the block-grant provision pointed out places where they felt Title I schools had not been successful. They thought that more flexibility using block grants would be efficacious.

The 2000 reauthorization stated that the overall "purpose of Title I is to help low-achieving children in high poverty schools meet challenging State standards that all children are expected to meet."[21]

After some deliberation in a presidential election year, Congress voted to continue the appropriation for ESEA by a continuing resolution without effectuating its reauthorization.

Federal Expenditures

A look at recent federal budgets indicates that, although the dollar amounts have increased, the percentage of the federal budget allocated to education, employment, and training has decreased. This has followed a marked increase between 1960 and 1980. In 1960, the federal funds for education were $1.7 billion; in 1980, $25.6 billion; in 1993, $30.6 billion; and in 1998, $39.4 billion in the Education Department's budget. In 1996, a total of $70.1 billion for education was included in the various federal departments (see Figure 8.1). Despite this increase in dollar amounts, in the 20 years



Total = $70.1 billion

FIGURE 8.1 Federal Funds for Education, by Agency: Fiscal 1996

Source: U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 1997;* and National Science Foundation, *Federal Funds for Research and Development, Fiscal Years 1994, 1995, and 1996.*

from 1978 to fiscal 1998, "the percentage spent for education and training programs was cut in half, from 6 cents of each federal tax dollar in 1978 to a projected 3 cents for 1998. While the percent of each tax dollar that went to finance the debt has doubled, the percent spent in some other key areas was cut drastically in the 20 years from 1978 to proposed 1998 levels."[22]

In fiscal year 2000, the federal budget was balanced and some federal bonds were purchased, which reduced the national debt. In fiscal year 2001, the budget was balanced and the debt was decreased again.

Limited Federal Aid: A Reality

The first federal aid for education, the Northwest Ordinances, is older than the United States Constitution, and various forms of categorical aid have appeared. As conscientiously as one may search for valid opposing arguments, or as boldly as one may decry federal involvement in educational matters, the die is cast. No longer is the debate whether the federal government can be involved in funding education. The questions are: (1) What percentage of the total education budget should the federal government assume? and (2) Should the process of funding be through block grants, categorical aid, or general aid?

Some critics of federal programs permit their children to participate in school lunch programs, attend agricultural colleges, pursue vocational education, and participate in many other federally subsidized programs. The most radical critic of federal assistance to education can find little to condemn in the tremendously important land grants or in the G.I. Bill, which provided federal funds for the education of war veterans. Both of these programs were significant federal contributions to education. On the other hand, the most ardent advocate of federal aid can point to some programs that seem to have gone beyond generally acceptable limits in federal usurpation of control or domination of responsibility for education.

Various classifications have been used to differentiate the many programs of federal aid, depending on their purpose or their supporting rationale. Reference is often made to such common and understandable divisions of assistance as *general-purpose, categorical, block grants,* and *emergency aid* for certain groups of citizens for whom the government assumes responsibility.

The American Association of School Administrators described the following five kinds of federal aid: (1) aid to promote the cause of education, (2) aid to broaden the scope of education, (3) aid to educate individuals for whom the federal government accepts responsibility, (4) aid to improve the quality of education, and (5) aid to compensate for deficiencies in the school tax base. Some federal assistance serves more than one of these purposes, however, and is therefore not accurately categorized in any one classification.

Still another way of classifying federal aid may involve only three subdivisions: (1) federal aid to states to help promote and finance already established educational programs, (2) federal aid provided by the operation of federal programs that supplement state-established educational offerings, and (3) federal aid made available to nonpublic schools.

Federal Fiscal Advantages and Disadvantages

The federal government's role in financing public education may be characterized as having begun as advisory and supplementary. The contribution of the federal government to the present state of development of public schools has been important, in spite of the disadvantages that this unit of government encounters as a partner in the system of education. It is the unit in the hierarchy of governance that is at the greatest distance from the ongoing process of education. By constitutional design, the federal government was to have only limited interest in educational matters. Education is the only function of the local school district and is an important function of state government, but it is only one of many important responsibilities at the national level. The federal government has a myriad of problems and programs that, of necessity, often upstage the federal interest in education—especially in periods of crisis or national emergency.

Taxing System

The federal government has certain advantages that tend to give high moral, if not legal, responsibility to assist in the operation of this important and expensive service of government. Chief among these is its great ability as a tax collector. Using the graduated income tax, it has become an effective tax-collecting agency.

The federal government uses the graduated income tax as its predominant source of revenue, followed by, historically, deficit financing. Total income, with proper deductions for dependents and other tax exclusions, provides a good comparison of the ability of people to pay their obligations to government. An income tax produces large amounts of revenue at a relatively low collection rate. It is collected for the most part by withholding taxes. It is paid by a high percentage of citizens, although it is too easy to evade, under certain conditions. Features of the tax can be regulated in such a way as to alter the economic pattern of the country. With all its limitations and unfairness in the treatment of some individuals or companies, the income tax remains the backbone of this country's federal tax structure. Inherent inequities in its application and its complexity are its greatest deficiencies; its power to produce large amounts of revenue while using the ability principle of taxation is its greatest virtue.

Neutral Position

The position of the federal government should be one of neutrality as far as providing educational advantages is concerned, for all the people are citizens of a nation, not just citizens of local communities and states. Potentially, federal tax money can be used in any state for education or in any school district, for every citizen can be viewed at the national level as being as important as every other one. It is much more difficult for state officials in a wealthy state to practice such a philosophy when considering the pupils in another less fortunate state.

Distributing Federal Funds

Although there has been considerable discussion over the years concerning the method or process of the distribution of federal funds, generally speaking, the *modus operandi* was using categorical funding (i.e., a certain category of need was determined to be in the federal interest and that particular category was funded). Under this **categorical aid** approach, the federal government designates the exact purpose for which federal funds will be used. Examples of these categories are compensatory education (Title I, which was legislated in 1965 when it was determined that the poor needed some compensation in the school system because of their lack of opportunity in life), handicapped education, American Indian education, vocational education, school lunch programs; and early childhood education (Head Start and others). Bilingual education, migrant education, and programs of national significance, although not as extensive, are additional examples of categorical funding.

Some have criticized the imbalance that many of these federal activities have tended to create in the public schools and have suggested a *block-grant* approach. Educators see block grants as related to the categorical approach, involving broader categories and greater discretion within and among these categories. An example of block grants would be to combine bilingual education and migrant education. The term has been used as if it were synonymous with *general aid,* but it is a middle-of-the-road approach between categorical aid and general aid.

General aid involves only a general expression of purpose or priority by the federal government, such as improving education at the elementary and secondary levels, and allows the states to solve their problems as they see fit. It also implies far less accountability, reporting, and evaluation. Some educators champion categorical aid while others have accepted it only in lieu of more appropriate general federal aid to education. General Federal aid has not yet been authorized by congressional action. It would seem that the odds against obtaining general federal aid in any substantial amount are high at the moment. Perhaps it is more meaningful to consider the practical pros and cons of the categorical aid programs that have inundated the state and local districts.

The two chief arguments raised against categorical aid are the following: (1) It tends to give the federal government too much power and control in determining where the money is to be spent. (2) It often results in imbalances in the curricula and programs that the schools sponsor. There is hope in the belief that just as the states began their appropriations to local districts in categorical grants and later moved to more general aid, so may the federal government move toward more generalized aid programs in the future.

Future general federal aid programs, to be effective, must embody certain characteristics. (1) They must not be used to allow state and local support monies to be decreased. The main responsibility for financing education must remain at those levels;

federal assistance must assure supplemental, not a supplanting, function. (2) Funds should be based on the principle of equalization, but each state should expect to receive some funds, depending on its comparative wealth and need. (3) Funds should be provided for some specific programs that are in the national interest but that may be neglected because of their high costs, inconvenience, or emergency nature—education of the disadvantaged, the disabled, the exceptional, and similar groups.

The traditional solution to overcoming the inflexibility of categorical programs is the block grant. Though funds still flow to the states on a formula basis, much broader discretion is permitted in the allocation of the funds at the state and local levels. States are given much more administrative responsibility in monitoring, and local education agencies still have the flexibility to choose from a variety of programs.

Federal Equalization

The battle continues for equalization of state funds to local districts, and no such arrangement has been authorized for distribution of federal monies to the states. Certainly the arguments for equalization are as valid when applied to the allocation of federal funds as when applied to distribution of state funds. State boundaries, like school district boundaries, should not relegate some pupils to poor education while elevating others to superior education. Place of birth should not arbitrarily determine the kind and amount of education a student should receive, for the principle of equality of educational opportunity applies to all citizens.

That federal financial assistance should be distributed to the states on an equalization basis is supported by the following arguments:

1. The states have wide differences in their ability to pay for education, regardless of the devices or methods used to measure such comparative figures. This has a great deal to do with the wide range of annual expenditures per pupil, although other factors are involved. Some of the less wealthy states cannot finance an optimum or even an average educational program without excessive taxation, whereas others can do so with minimum tax effort.

2. Modern education does not confine its social or economic benefits to the area covered by the school district, the state, or even the nation. Conversely, bad effects of poor education follow the recipients wherever they go. The problems created by inadequate education in a poor state accompany the school dropout or the graduate who moves to a more affluent area in search of job opportunities. Thus, it is to the advantage and interest of even the wealthy states that every state provide a good education for all its citizens. The best-known method of assuring a sound educational program in every state is providing an equalized finance base.

3. A strong and viable educational program in every state strengthens the nation as a whole—its defenses, its economic productivity, and its support for the basic principles of democracy. Democratic or representative government can function successfully only with enlightened citizens.

The method for distributing federal funds has its critics, who may have an influence in the twenty-first century. The formula for allocating Title I funds, for example, had been based on the states' per-pupil expenditures. The rationale was that those states that spend more per pupil should be rewarded for making a greater effort. Opponents contended that such a policy was inequitable, as many states were shown to be making a greater effort when the per-capita income of a state was considered in the formula. Senate Bill 755, 102nd Congress (1991), noted that when a calculation is made of the correlation between the average per-pupil expenditure and per-capita income, these two factors are closely related; that is, states with relatively high (or low) personal income per capita also have relatively high (or low) average per-pupil expenditure. The Congress recognized in 1995 the added factor of per-capita income and it was joined to the formula for *additional* Title I money.

In practice, a state's average per-pupil expenditure can be influenced by many factors, such as personal income, school-age population, transportation, utility costs, number of private school students, and number of students with special needs. The allocation of federal funds based merely on the states' per-pupil expenditures raises an equity question in the minds of educators.

Federal-State-Local Finance Sharing

To what degree should each level of government participate in financing public education? The answer to that very reasonable question has never been made with any consensus. What proportion of local-state-federal sharing should be accepted as standard? Are there criteria that can be applied to determine a more realistic and valid basis on which to base each level's partnership responsibility? As the costs of education increase and states and local districts become increasingly less able to finance education, how shall the role of the federal government be determined? The questions in this regard are easy to formulate and numerous; the answers are evasive. The current percent of federal support, on a state-by-state basis, is shown in Table 8.1.

Governmental Responsibilities Change

From the beginning of this nation, education has been part of state government. It has been a direct responsibility of the states, but the responsibility for financing education until recently had chiefly been on the local school districts. Certain operational realities make it likely, however, that changes can be expected.

Ironically, Americans continue to trumpet the merits of local, decentralized control of the educational system at the same time that local inadequacies have brought the state and its centralization tendencies into more responsible action in financing education, in certificating teachers, and in standardizing curricula. Changing demands of society for more governmental services, including education, put additional pressures on government for more controls, more definitive guidelines, and stricter regulations, with commensurate loss of local power.

TABLE 8.1 Percent of State Education Revenue Provided by Federal Sources

State	Federal	State	Federal
United States	**6.6**		
Alabama	9.6	Montana	9.4
Alaska	11.8	Nebraska	6.0
Arizona	9.3	Nevada	4.2
Arkansas	7.8	New Hampshire	3.5
California	8.2	New Jersey	3.5
Colorado	5.2	New Mexico	12.7
Connecticut*	3.5	New York	5.4
Delaware	7.6	North Carolina	7.2
District of Columbia	10.5	North Dakota	12.0
Florida	7.4	Ohio	6.1
Georgia	6.8	Oklahoma	8.3
Hawaii	8.1	Oregon	6.2
Idaho	6.7	Pennsylvania	5.5
Illinois	6.3	Rhode Island	5.4
Indiana	4.2	South Carolina	8.4
Iowa	5.1	South Dakota	9.7
Kansas	5.6	Tennessee	8.5
Kentucky	9.3	Texas	7.7
Louisiana*	11.7	Utah	6.3
Maine	5.4	Vermont	4.6
Maryland	5.2	Virginia*	5.0
Massachusetts	4.8	Washington	5.9
Michigan	6.6	West Virginia	8.3
Minnesota	4.3	Wisconsin	4.3
Mississippi	14.0	Wyoming	6.6
Missouri	5.9		

*Value contains imputation for missing data. Imputed value is less than 2 percent.

Note: Details may not add to total due to rounding.

Source: U.S. Department of Education, NCES, Common Core of Data, National Public Educational Financial Survey. http://nces.ed.gov/pubs99/1999301/.

The shifting of responsibilities of the three levels of government for educational needs and services is not a new phenomenon. For example, financing education, once a local function only, is now largely a local-state partnership. As functional responsibilities shift, changes come also in the degree of centralization emphasis. Just as any increase in state financial support for education may represent some degree of encroachment on local control, so additional federal support increases the possibility of centralization of power and lessening of state and local autonomy in operating public schools.

State and federal regulations and power over public school operation have increased slowly but surely in the last several decades. As districts reach out to become recipients of state and federal revenues, which are more equitably imposed and more economically collected than those at the local level, they must weigh the advantages received against the possible losses of power.

Partnership Proposals Vary

No compelling method exists for determining the proportion of public school costs to be paid by each level of government. Those opposed to federal aid would divide the responsibility between the local units and the state. The strong supporters of the status quo would leave the proportions at somewhere near the present percentages. There are a comparative few who would continue to maintain the unrealistic position that the finances should be provided almost completely at the local level to assure local control of education. A number of citizens are advocating complete state support of education in order to simplify and improve equalization.

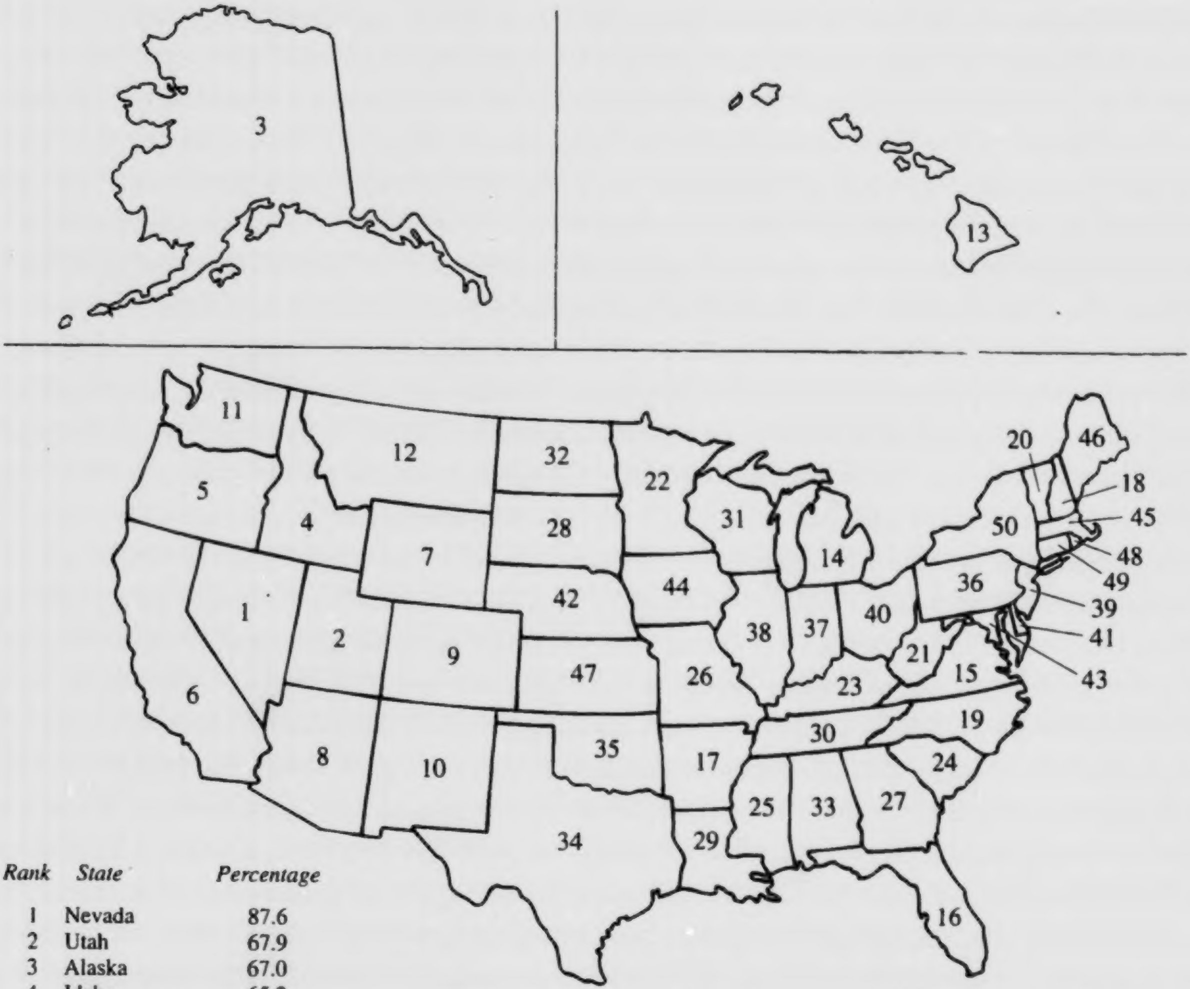
Federal Aid in Lieu of Taxes

Federal aid to education does not represent a purely altruistic position by an affluent "uncle." Rather, some federal programs have been organized and implemented because of the financial obligations that the federal government has to the states. A prime example is the obligatory payments the federal government has to make in lieu of the taxes that would ordinarily be paid on the tremendous amount of land that it owns, particularly in the western states. About one-third of the land area of the country is owned by the federal government; this removes it from the reach of state, county, or school district property taxes.

A report in 2000 indicated that federal ownership of land in the 50 states had reached a total of 700,000,000[23] acres—one-third of the nation.[24] Most of the gains were due to expansions of national parks, national monuments, national wildlife refuges, and national forests. The Forest Service, National Park Service, Bureau of Land Management, and Fish and Wildlife Service manage 95 percent of the federal-owned land. More than half of the land owned by the federal government is in five states. In Nevada, 87.6 percent of the state is owned by the federal government, in Utah, 67.9 percent, in Alaska, 67.0 percent; in Idaho, 61.2 percent; and in Oregon, 55.5 percent (see Figure 8.2).

Increased Governmental Services

It is impossible to understand the point of view that favors extended federal financial support for education unless one understands the change in philosophy about government services that has pervaded the country in the last several decades. Traditionally,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Rank	*State*	*Percentage*
1	Nevada	87.6
2	Utah	67.9
3	Alaska	67.0
4	Idaho	65.2
5	Oregon	55.5
6	California	49.9
7	Wyoming	49.7
8	Arizona	44.3
9	Colorado	38.9
10	New Mexico	36.2
11	Washington	32.8
12	Montana	31.9
13	Hawaii	18.4
14	Michigan	15.8
15	Virginia	15.7
16	Florida	15.5
17	Arkansas	15.3
18	New Hampshire	15.1
19	North Carolina	14.2
20	Vermont	14.2
21	West Virginia	13.6
22	Minnesota	12.9
23	Kentucky	11.4
24	South Carolina	10.7
25	Mississippi	10.5
26	Missouri	8.9
27	Georgia	8.8
28	South Dakota	8.7
29	Louisiana	8.0
30	Tennessee	7.6
31	Wisconsin	7.3
32	North Dakota	7.3
33	Alabama	5.9
34	Texas	3.7
35	Oklahoma	3.6
36	Pennsylvania	3.4
37	Indiana	3.2
38	Illinois	3.0
39	New Jersey	2.7
40	Ohio	2.6
41	Delaware	2.5
42	Nebraska	2.3
43	Maryland	2.1
44	Iowa	2.1
45	Massachusetts	1.7
46	Maine	1.2
47	Kansas	1.1
48	Rhode Island	0.6
49	Connecticut	0.6
50	New York	0.4
	United States	**31.1**

FIGURE 8.2 Percentage of State Land Owned by the Federal Government

Source: http://www.nwi.org/Maps/LandChart.html, August 2000.

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the federal role was accepted as one of maintaining law and order, providing for some degree of protection to individuals and their property, and in general maintaining a laissez-faire policy toward most other problems. Such a role was justifiable and worked for the maximum development of individual initiative and growth. Economists and political scientists supported this policy, and it served the country well for a long period of its early history.

The "let alone" policy of government is still an issue. The increasing complexity of social institutions, the economic order, and the political structure has resulted in increased services of government. The dangers of unlimited extension of such services are great, however. Thus, determining the services that should be provided by each level of government and those that should be left to the individual is now of paramount importance. The assumption here is that each unit of government is responsible for providing those services that will result in maximum benefits to the greatest possible number of citizens.

The Future of Federal Aid-to-Education Programs

Concerning the future of federal assistance to education, the following facts now seem to be apparent:

1. The widespread and complex involvement of the federal government in helping to finance public education programs is likely to fluctuate. There is some evidence that the specific programs to be sponsored or financed may change considerably as they are influenced by changing philosophies and changing leaders in the three branches of the federal government.
2. If order is to be established in the administration of federal programs, it will be necessary to center primary responsibility in fewer educational agencies at the national level. The United States Department of Education is the logical agency to administer most, if not all, of the federal programs directly related to education.
3. Additional federal financial programs need not—indeed, should not—greatly increase the degree of control over education at the national level. However, there is a need to give national purpose to education. Funds for education, regardless of their source, should be directed toward achieving national as well as state and local community goals of education.
4. Although categorical aid and block grants contribute greatly to the educational program, the goals of education demand that some form of general aid should be recognized as desirable. This should be initiated at the earliest possible time to help dissolve the barriers preventing equal educational opportunity for every citizen, regardless of color, race, creed, or place of residence.

The opinions of people concerning the role of the federal government is still controversial. Some federal involvement is now supported by a majority of citizens. As the programs and official responsibilities of the public schools increase, greater participation and support are required at each of the three levels of government. As the costs of high-quality education continue their spiral upward, it is inconceivable that the solutions to the increasing problems of education should rest on only one or two of the parties concerned—the states and the local school districts. For the system to work as intended, each partner must assume some share of the additional responsibility for the educational programs that citizens will continue to demand in the years ahead.

Over the last century, many federal funding elements have endured, and are likely to continue in the future, primarily in the areas of American Indian education, vocational education, compensatory education, education for those with special needs, school foods, federal payments in lieu of taxes, and support through loans and grants to students in postsecondary and higher education institutions.

Department of Education

For well over a century, the federal government's main thrust in the performance of its educational function came through the operations of the United States Office of Education. The agency was founded in 1867 and called the Department of Education, although not represented in the cabinet. The newly designated agency had three major functions: (1) to collect statistics and facts that would show the condition and progress of education in the several states and territories; (2) to diffuse information respecting the organization and management of schools and school systems, and methods of teaching; and (3) to promote the cause of education throughout the country. The first Department of Education was quickly downgraded to the status of a department within the Bureau of Interior and remained there for 72 years, functioning as a small record-keeping office and collecting information on the modest federal education efforts.

Proposals for a separate department surfaced periodically but were given little support. In 1939, the Office of Education was transferred to the Federal Security Agency, which became the Department of Health, Education and Welfare (HEW) in 1953.

With the tremendous expansion of federal education programs in the period after World War II, arguments for a separate department grew more compelling. During the 1960s, several studies of government organization recommended establishment of a separate department, as well as further reorganization that would bring all education programs under the administration of a single department.

In 1972, Congress established an Education Division, headed by an Assistant Secretary of Education within the Department of Health, Education and Welfare. Despite this reorganization, administration of federal education programs continued to be confusing and sometimes contradictory. In 1978, administration of the hundreds of education programs was spread over more than 40 different agencies. In September 1979, Congress approved the creation of the Department of Education, with cabinet-level status. The legislation established a Department of Education, headed by a secretary to be appointed by the president and approved by the Senate. It formed within the department's six offices: elementary and secondary education, postsecondary education, vocational and adult education, special education and rehabilitation services, education research and improvement, and civil rights. Also established was an office of education for overseas dependents and an office of bilingual education and minority languages.

The legislation emphasized that the primary responsibility for education was reserved to the state and local school systems and specifically prohibited the department from increasing federal control over education or from exercising any control over the curriculum, administration, personnel, library resources, textbooks, or other instructional materials of any school, except to the extent authorized by law. "When Congress was writing the Department of Education Organization Act in 1979, lawmakers wanted to allay fears that the new Cabinet-level agency would bring Washington's political meddling into local classrooms. So language was written into the law that strictly forbids the department from wielding any control."[25] It reads:

> Sec 103.
>
> (b) No provision of a program administered by the Secretary or by any other officer of the Department shall be construed to authorize the Secretary or any such officer to exercise any direction, supervision, or control over the curriculum, program of instruction, administration, or personnel of any educational institution, school, or school system, over any accrediting agency or association, or over the selection or content of library resources, textbooks, or other instructional materials by any educational institution or school system, except to the extent authorized by law.[26]

In an executive order issued May 2, 1980, President Jimmy Carter stated the new department's purposes in the following:

> Now, to meet the needs of generations to come, we have established a Department of Education to express our national commitment to education, to promote equal educational opportunity, to assist local authorities in their efforts to improve our schools, and to administer federal education programs more efficiently.
>
> I call upon all parents and students, all teachers and administrators, all lawmakers and public officials—I call upon all my fellow citizens to celebrate this day. As a people, let us dedicate ourselves anew to building an educational system which will cherish young people, instill self-discipline and prepare students for tomorrow's world; which will encourage scientific curiosity and foster artistic creativity; which will support research, reward good teaching and honor high intellectual achievement.
>
> Only by making this commitment can we pass on a tradition of educational excellence and equal opportunity to Americans of the twenty-first century and give them the tools they will need to shape their own interpretations of the American dream and make their own contributions to life, liberty and the pursuit of happiness.[27]

The election of Ronald Reagan in November 1980 brought new challenges to the year-old Department of Education. Terrel H. Bell was appointed Secretary of Education, with the mandate to abolish the department "as quickly as possible." The demise of the Department of Education was thwarted through the impact "A Nation at Risk" had on the country. The focus was turned toward the need to make improvements in education.

In 1991, President George Bush appointed Lamar Alexander, former governor of Tennessee, as the fifth Secretary of Education. One of his challenges was to expedite a greater business-education relationship with the establishment of the New American Schools Development Corporation. In 1993, President William Clinton appointed Richard Riley as Secretary of Education. Riley, the former governor of South Carolina, made massive changes in his state's educational system after the "A Nation at Risk" report was issued.

The fiscal 2000 federal budget for the Department of Education called for expenditures in educational reform, compensatory education, impact aid, school construction, school improvement programs, American Indian education, bilingual and minority language programs, special education, vocational and adult education, rehabilitation services, disability services, student financial assistance, family education loans, student loans, research, statistics, technology, programs for the gifted, mathematics, science, community learning centers, civic education, writing, museum and library services, civil rights, and higher education.[28] In other departments, funds were requested for early child education, job training for youths, additional Native American education, national science activities, Department of Defense schools, agriculture, energy, NASA, Veteran education, as well as others. Students of educational finance should be appraised that, although *budgeted,* funds may not be *appropriated* at the budget level.

Some involvement of the federal government in education seems to be acceptable. One of the major challenges of the department as it makes grants and disburses funds to states and school districts throughout the nation is that of establishing a proper balance in the federal government's "partnership" relationship with state and local educational systems to bring educational excellence to all the nation's schools.

Summary

The role of the federal government in education has long been a controversial one that has had racial, religious, and political overtones. Historically, federal involvement with the public schools has been minor. The framers of the Constitution seemed to have feared the establishment of a nationally controlled school system. In effect, the adoption of the Tenth Amendment in 1791 relegated the federal government to an advisory role as far as education is concerned. Throughout the history of the United States, the comparative roles of the three levels of government have been in a state of change.

Federal education activities began in 1785 with the land grants in the Northwest Ordinances that were given for the purpose of establishing schools. Later, the Morrill Acts provided land for the establishment of land-grant colleges. These were followed by supplemental acts and by various vocational education grants. School lunch, relief and emergency programs, war on poverty, and payments in lieu of taxes are examples of federal involvement in financing education. Federal emphasis has been given to programs designed to help eliminate racial and sex discrimination, stress cultural awareness, and provide funds for specialized categorical programs.

The federal government has the ability to collect taxes in an effective manner. One of its major concerns is how to determine the best method for distributing funds equitably. Federal funds are usually categorical in nature, with the result that the states and local school districts lose some of their control.

There is still wide disagreement among the people of the nation as to the degree to which the federal government should participate in financing public education. A proper mixture of leadership at all levels of government is needed if public education is to continue to improve and to provide the kind and amount of instruction that is so necessary for the youth of the nation.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *constitution, federalism, Tenth Amendment, categorical aid, block grants, general aid, in lieu of taxes, budgeted, appropriated, Northwest Ordinances.*
2. Trace the development of the Department of Education from its beginning to its present position. List the advantages and disadvantages of having a department of education at the national level.
3. Determine which of the long list of federal acts for financing education that have been in operation through the years have been generally accepted with little controversy and which have engendered great controversy.
4. Distinguish between general federal aid and categorical federal aid in terms of their advantages and disadvantages, their value to the states and to school districts, and the problem of getting each type enacted by Congress.
5. Trace the development of land grants by the federal government and indicate the disposition of these lands in your state.
6. Select a categorical grant of the federal government and trace how it is allocated to the states, to school districts, and to various schools. Determine what controls the government has put on how the funds are spent, how the funds are administered, and how expenditures are reported to the federal agency.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER

9 The Influence and Climate of the Courts

The rash of school finance litigation has propelled school finance reform to the top of state policy agendas, creating a positive climate for change.
—Deborah A. Verstegen, 2001

Nowhere in the broad spectrum of activities in education is there a better example that financing education is in a climate of change than examining the influence of the courts as they scrutinize public school finance systems. One has only to read the history of U.S. education to be reminded of the many times the courts have altered its course. As early as 1859, in *Springfield Township* v. *Quick et al.*—a case concerning Section 16 of land that the Northwest Ordinances of 1785 and 1787 had set aside for the support of schools—the Supreme Court made the decision that a school finance law in Indiana "is a perfectly just one...those plaintiffs have no right to call on this court to interfere with the power exercised by the state legislature in laying and collecting taxes and in appropriating them for educational purposes, at its discretion."[1] The *Kalamazoo* case of 1874[2] established a legal system of taxation for funding secondary education; the *Brown* case of 1954[3] pushed aside the indefensible doctrine of "separate but equal" facilities and opportunities for minorities; and the "one man–one vote" decision of 1962[4] changed the organization of state legislative bodies and ultimately obliterated the requirement that voters must pay property taxes in order to vote in certain school elections. In 1971, the *Serrano* decision of the California Supreme Court[5] put legal pressure on the California state legislature to revise the state finance formula to effect greater equity and equality for the students in all school districts within the state.

In *San Antonio Independent School District* v. *Rodriguez*,[6] the United States Supreme Court upheld the Texas school financing system in 1973, stating that education was not a fundamental right under the federal U.S. Constitution. This case had remarkable impact on school finance cases and it ended appeals to the federal court system on such matters in the twentieth century and it is expected to stop similar appeals in the twenty-first century as well. Basically, the Court ruled that "though education is one of the most important services performed by the State, it is not within the limited category of rights recognized by this Court as guaranteed by the Constitution."[7] Justice

Powell delivered the opinion of the Court, which was decided by 5–4 vote. Powell stated:

> Education, of course, is not among the rights afforded explicit protection under our Federal Constitution. Nor do we find any basis for saying it is implicitly protected.
>
> ...We have carefully considered each of the arguments supportive of the District Court's findings that educating is a fundamental right or liberty and have found these arguments unpersuasive.[8]

Powell continued to discuss the issue of state and national roles in educational finance matters. His frame of reference was in relation to *federalism*. He maintained:

> It must be remembered also that every claim under the Equal Protection Clause has implications for the relationship between national and state power under our federal system. Questions of federalism are always inherent in the process of determining whether a State's laws are to be accorded the traditional presumption of constitutionality, or are to be subjected instead to rigorous judicial scrutiny. While the maintenance of the principles is a foremost consideration in interpreting any of the pertinent constitutional provisions under which the Court examines state action, it would be difficult to imagine a case having a greater potential impact on our federal system than the one now before us, in which we are urged to abrogate systems of financing public education presently in existence in virtually every State.[9]

Since *Rodriguez,* a plethora of cases in state courts has either sustained or required alteration of school finance systems. These cases, which have been pursued in state courts, recognize the principle of federalism—that education is a state responsibility and state courts should be the venue where school finance issues are decided. In fact, Justice Thurgood Marshall, writing for the minority in *Rodriguez,* anticipated the strategy he thought the unsuccessful plaintiffs might pursue, when he stated, "Of course, nothing in the Court's decision today should inhibit further reviews of state educational funding schemes under state constitutional provisions."[10]

In the last third of the twentieth century, 40 states had school finance disputes adjudicated at the state level. In 17 states, plaintiffs, who were challenging the state's finance systems, won; in 23 states, the plaintiffs lost. In the remainder of the states, either no litigation took place or their state supreme courts did not render decisions. It is expected that these disputations will continue into the early part of the twenty-first century.

Court Decision Guidelines

Certain general guidelines have emerged from the numerous state and federal court decisions about financing education. Some of the most important are the following:

1. Since education is neither an explicit nor implicit right under the United States Constitution, financing education is a state responsibility. Numerous court cases at the state level strengthen that principle. State courts measure the educational finance system within a state against the respective states' constitutions and educational statutes, and reach diverse results.

2. The courts are generally inclined to construe statutes concerning taxation strictly. They usually favor the taxpayer over the school district. A Florida court, for example, pointed out that "in deciding questions relating to procedure employed by a governmental taxing agency one must bear in mind at the outset that laws providing for taxation must be construed most strongly against the government and liberally in favor of the taxpayer."[11]

3. School finance funds, including tax monies, are state funds, not local ones. Local school districts are agencies of the state and are in reality acting for the state. The courts are therefore inclined to the same care and efficiency in the administration of school funds that are required for other state agencies and institutions.

4. The courts have held consistently to the opinion that school taxes need not be imposed so that a direct relation exists between the benefits individual taxpayers receive and the amount of taxes they pay. In the words of one court, "The benefits are intangible and incapable of pecuniary ascertainment, but it is constitutionally sufficient if the taxes are uniform and are for public purposes in which the whole city has an interest."[12]

5. The legislature of each state has complete power to control public school funds and to determine how the public schools shall be financed, subject only to the restrictions imposed by the constitution of the state involved. Consequently, the legislature has wide discretion in determining how school funds shall be apportioned, so long as the basis for such apportionment is just and not arbitrary.

6. State public school finance systems do not rise to the level of *strict* judicial scrutiny in the federal courts. The United States Supreme Court in *Rodriguez* stated that "public school finance is an inappropriate candidate for strict judicial scrutiny."[13] (Standards used by the federal courts to review legislation include reasonable, intermediate, and strict scrutiny. *Reasonable* scrutiny requires a state to demonstrate a mere rational basis behind most laws concerning education and has minimal, if any, federal protection. Examples of statutes reviewed under the reasonable level of scrutiny would be compulsory education statutes and policies for extracurricular school activities. *Intermediate* scrutiny is applied to laws that address issues concerning gender and age. *Strict* scrutiny requires a state to demonstrate a compelling state interest to justify any law that has an impact on matters of race, color, creed, national origin, and First Amendment fundamental rights such as speech, religion, press, and association—not public school finance. See Figure 9.1) Concerning *Brown* v. *Board of Education,*[14] the Supreme Court ruled that equal education opportunity on the basis of race came under the *strict* scrutiny level of constitutional protection. Therefore, the students' rights reviewed in *Brown* v. *Board of Education* stated that educating must be provided on equal terms. In sum, a student cannot be discriminated against in school but has no federal constitutional right to be treated financially equitably.

Strict Scrutiny Compelling State Interest	First Amendment rights (speech, religion, press, association, etc.), race, color, creed, national origin Federal Constitution
Intermediate Scrutiny Medium State Interest	Gender, handicap, age Federal Statutes
Reasonable Scrutiny Rational Basis	Compulsory education, lifestyle, extracurricular school activities, public school finance systems Minimal, if any, federal protection

FIGURE 9.1 Standards Used by the Federal Courts in Equal Protection Cases under the Fourteenth Amendment*

*The standards courts use when applying strict scrutiny, intermediate scrutiny, and reasonable scrutiny may change over time. The scrutiny with which courts examine legislative actions changes when legal philosophy is altered or when justices with different legal persuasions are appointed.

Generally, the courts tend to reflect the values and attitudes of a majority of the people toward the issues and questions on which they are ruling. Scrutiny issues are changing over time. Numerous court decisions illustrate the attitude of the general public toward some of the legal principles involved in financing education. This attitude can be illustrated by the controversy over Supreme Court nominees. In April 2000, Stuart Taylor, Jr., speaking of the nomination process to choose justices for the Supreme Court, declared, "Balance of power may soon change.... A change in the ideological balance could swing the court to the right or left."[15] When the president of the United States nominates someone to the Court, often the nominee's political—not judicial—philosophy becomes the target of the inquiry.

Power of the Courts

Most citizens are aware of the fact that education is a state function in which some responsibility is delegated to the local school unit. They know, too, that each state's legislative body exercises plenary power over its own educational system. However, they sometimes disregard or underemphasize the subtle but strong power the judicial system has over educational matters. As a consequence, the average person is often startled when a major court decision affects the educational systems of the states.

Until the early 1970s, most higher courts refused to interfere or to rule in certain types of school finance cases, with the rationale that the methods used to collect and distribute funds to local school districts were a legislative, not a judicial, problem. For example, in *Sawyer* v. *Gilmore* (1912),[16] the Supreme Court of Maine said, "The method of distribution of the proceeds of such a tax rests in the wise discretion and sound judgment of the Legislature. If this discretion is unwisely exercised, the remedy is with the people and not with the court."

No one seriously questions the philosophy of the *Sawyer* court—least of all the courts that have ruled on similar disputes. Courts have not rewritten state school finance laws to meet the conditions they may have ruled against, although some have threatened to do so. The function of the courts to interpret laws and constitutions does not go that far. They have, however, sometimes given states a reasonable time in which to make the court-required changes through the normal channel of legislative action.

Equal Protection and the Courts before 1971

Perhaps the most publicized court case before 1971 that involved the provision of unequal revenues per pupil in different school districts in the same state was *McInnis* v. *Shapiro* in Illinois in 1969.[17] The complaint was that there was inequality in the provision of funds in various school districts in the state. The complaint was dismissed by a three-judge court, even though it recognized the wide range of expenditures among Illinois school districts. The court ruled that the Illinois plan for financing public education reflected a rational policy that was consistent with the mandate of the Illinois Constitution. It stated that the unequal expenditures per pupil did not amount to an invidious discrimination and that the laws that permit such unequal expenditures were neither arbitrary nor unreasonable. It further ruled that equal educational opportunity was not a constitutional requisite and that the court could not decide the issue.

The plaintiffs appealed the case (now *McInnis* v. *Ogilvie*) to the United States Supreme Court. The Court, without hearing the case, affirmed the decision of the lower court. The trial court had emphasized judicial lack of power or authority to change state school finance programs when it said, "The courts have neither the knowledge, nor the means, nor the power to tailor the public moneys to fit the varying needs of these students throughout the state. We can only see to it that the outlays on one group are not invidiously greater or less than that of another."[18]

In the *McInnis* case, educational advocates of equal protection had projected their thinking to include all children eligible for such by constitutional guarantee under the Fourteenth Amendment. Hence, these educators were disappointed at the failure of the Court to take positive action to alleviate the disparities in the case.

Serrano v. *Priest (1971)*

A landmark decision that reversed the general view of state school financing formulas occurred on August 30, 1971, when the California Supreme Court ruled that John Serrano's complaint against the state's public school financial pattern was justifiable and that the pattern must be revised to make it constitutional.[19] At the time the *Serrano* suit was brought to court, educational expenditures per person in California ranged from $274 in one district to $1,710 in another—a ratio of 1 to 6.2. In the same year, two districts in the same county (Beverly Hills and Baldwin Park) expended $1,223 and $577 per pupil, respectively. This inequity was due to the difference in the assessed valuation of property per pupil to be educated ($50,885 in Beverly Hills and $3,706 in Baldwin Park—a ratio of nearly 14 to 1). The taxpayers in Baldwin Park paid a school tax of 54.8 mills ($5.48 per $100 of assessed valuation) while those in Beverly Hills paid school taxes of only 23.8 mills ($2.38 per $100 of assessed valuation). Thus, a tax effort in the poorer district twice as high as that in the wealthier one resulted in school expenditures of only 47 percent of that in the wealthier district.

The disparities in school funds available per pupil that led to the *Serrano* lawsuit could have been found in nearly all of the 50 states. It should be noted that the differences in ability to pay for education in Beverly Hills and Baldwin Park were not exceedingly great when compared with the extremes in the entire state or with those that could have been found in other states. Had the case been concerned with the extremes then existing in all of California, they would have been about 50 to 1, and 14 to 1 in New York. Thus, the issue in *Serrano* was concerned with differences in ability to pay—not necessarily in the size of those differences.

In *Serrano,* the California court considered questions related to the comparative wealth of districts, the classification of education as a *fundamental interest,* and whether the financing system was necessary to the attainment of any compelling state interest. In a 6 to 1 opinion, the court declared the state's public school financing system to be unconstitutional. It declared that dependence on local property taxes was the "root of the constitutional defect." It noted what school finance analysts have long known: Under such a system, with heavy reliance on property taxation, school districts with a low value of taxable property per child cannot levy taxes at high enough rates to compete with more affluent districts; in many instances, they cannot even provide funds for a minimum program of education.

The following statement summarizes the rationale of the court in the *Serrano* v. *Priest* decision:

> The California public school financing system, as presented to us by the plaintiff's complaint supplemented by matters judicially noticed, since it deals intimately with education, obviously touches upon a fundamental interest. For the reasons we have explained in detail, this system conditions the full entitlement to such interest on wealth, classifies its recipients on the basis of their collective affluence and makes the quality of a child's education depend upon the resources of his school district and ultimately upon the pocketbook of his parents. We find that such a financing system as presently constituted is not necessary to the attainment of any compelling state interest. Since it does not withstand the requisite "strict scrutiny," it denies to the plaintiffs and others similarly situated the equal protection of the laws.... If the allegations of the complaint are sustained, the financial system must fall and the statutes comprising it must be found unconstitutional.[20]

The trial court held that the California system of financing public education violated the equal protection provisions of the California Constitution and the Fourteenth Amendment to the U.S. Constitution because a disparity of tax money to support education existed among the districts of the state. According to the court, it made no difference that the existing system might provide an adequate education for all the children of the state. The disparity in the amount of money available for the education of children among the districts was constitutionally significant because it permitted some school districts to offer a higher quality of education than others. This differential treatment of children was in the area of the fundamental interest of education and was not justified by any compelling reason. Therefore, the court reasoned, the disparity must be corrected within a reasonable period of time. It ordered the state to provide a better equalization program by August 1980.

The trial court asserted that providing a school finance law was a responsibility of the California legislature, but it took the liberty of suggesting four possible plans to meet the requirements of equal protection:

1. Implement full state funding with statewide imposition and control of real property taxes.
2. Reorganize the 1,067 then existing school districts into about 500 districts, with boundary realignments to equalize assessed valuations of real property among all school districts.
3. Retain the school district boundaries but remove commercial and industrial property from local taxation for school purposes.
4. School district power equalizing is based on the concept that school districts could choose to spend at different levels. But for each level of expenditure chosen, the tax effort would be the same for each school choosing such level, whether it be a high-wealth or a low-wealth school district.

Demurring in 1971, the California Supreme Court looked past all previous contrary decisions of other courts. Previous rulings in such states as Michigan, Virginia, Texas, and Illinois had implied that the equal protection clause of the Fourteenth Amendment did not apply to school financing patterns. Thus, *Serrano* became a landmark case—the first major decision by a higher court ruling against a state's school finance program on the basis of violation of equal protection for all the school pupils of a state.

Consequences of *Serrano*

The following statements are representative of the reactions of school finance scholars and writers to the *Serrano* decision:

> Despite the fact that the school-finance systems of every state but Hawaii were subjected to fundamental challenge, the decision was widely hailed on all sides. The press, legislative groups, educators at all levels in the administrative hierarchy, and taxpayer organizations were all enthused. Liberal civil rights adherents rejoiced at the apparent

triumph of egalitarianism and conservative property owners rejoiced at the apparently impending demise of the local property tax.[21]

Wickert, writing in 1985, stated, "A new era was introduced with California's *Serrano* v. *Priest* court decision, which required school funding to be determined on some basis other than district property wealth."[22] However, many members of the educational community viewed the *Serrano* decision with a degree of skepticism. They feared that rather than being a great promise for the future in the field of educational finance, it might bring a leveling of the growth curve of revenues provided for education. A period of retrenchment was anticipated for taxpayers, who were beginning to rebel against the local property tax. Educators, along with numerous lay citizens, were quite concerned with the spiraling costs of educational programs and services.

The *Serrano* decision was followed with some inaccurate statements and faulty interpretations concerning what the California Supreme Court had actually said in condemning the finance law in that state. The following statement clarifies some of the misunderstandings that developed:

> Since the *Serrano* decision is a major factor in setting the criteria for education finance reform, it is important to be clear about what the court did and did not say. The court did not say that equal dollars had to be expended per child. It did not explicitly rule out plans providing more funds to higher cost pupils—such as disadvantaged, vocational, gifted, or handicapped students—as long as the distribution of these funds is not related to district wealth. Finally, the court did not exclude the property tax as a basis of education finance, but rather said that the level of educational expenditures could not be a function of district wealth.[23]

The immediate consequences of the *Serrano* decision were overwhelming in matters of school finance. Within five months after the announcement, three other state courts had made similar rulings. States that formerly seemed to be satisfied with maintaining their traditional financing programs began to study and restyle them with a zeal well beyond any previously demonstrated. Most of them encouraged, or even demanded, formal studies to modernize their school financing formulas. Such prompt state action was considered necessary in the face of an apparent legal threat of nationwide school tax and funding reform. The traditional local property tax, which had formed the chief framework for financing education in some states, appeared to some to be doomed. Although the *Serrano* decision did not condemn property taxes per se, it did condemn the unfairness that resulted from their use in California. State officials faced with apprehension the prospect of providing equitable school finance formulas if local property taxes were reduced or eliminated. They viewed with alarm the possibility of *Serrano*-type litigation in their states. Consequently, research studies were organized to correct formula inequities before court action was initiated.

Van Dusartz v. *Hatfield* (Minnesota, 1971)

In October 1971, only six weeks after *Serrano,* Minnesota became the second state to have its system of financing education declared unconstitutional. A federal district court judge accepted the California arguments and findings as being equally applicable in Minnesota. According to him, "The level of spending for a child's education may not be a function of wealth other than the wealth of the state as a whole." The court recognized that pupils in publicly financed schools have a right under the equal protection guarantee of the Fourteenth Amendment to have money spent on them "unaffected by variations in the taxable wealth of their school districts or their parents." The court said:

> This is not the simple instance in which a poor man is injured by his lack of funds. Here the poverty is that of a governmental unit that the State itself has defined and commissioned. The heaviest burdens of this system surely fall defacto upon those poor families residing in poor districts who cannot escape to private schools, but this effect only magnifies the odiousness of the explicit discrimination by the law itself against all children living in relatively poor districts.[24]

Spano v. *Board of Education* (New York, 1972)

The first ruling against the claims of the plaintiffs came in New York with the *Spano* case.[25] Andrew Spano and other residents and property holders in Lakeland Central School District No. 1 sued the board of education and various state officials because of the alleged unfairness of New York's legislative and constitutional provisions for levying and distributing school tax funds. Although the claims were much the same as in *Serrano,* the court based its decision on two previous cases (*McInnis* v. *Ogilvie,* Illinois, 1969; and *Burruss* v. *Wilkerson,* Virginia, 1969).[26] While acknowledging that there may be inadequacies and unfairness in state school financing systems, the New York Court of Appeals (New York's highest court; comparable to other states' supreme courts) indicated that, in its view, changes to correct such inequities should be the duty of the legislature rather than the court. It further stated that the "one scholar–one dollar" version of the "one man–one vote" mandate would have to be the prerogative of the U.S. Supreme Court.

San Antonio Independent School District v. *Rodriguez* (1973)

The United States Supreme Court spoke in 1973 while deciding the *Rodriguez* case. In 1970, three urban school districts in Texas brought suit against the Texas board of education and the state commissioner of education to determine whether the Texas system of allocating state funds for education was unfair. This case was based on the charge that underassessment in many rural school districts of taxable property resulted in their obtaining disproportionate amounts of state funds.[27] In late 1971, a federal court ruled that the Texas financing system violated both the federal and the Texas Constitutions. The court went a step beyond the California and Minnesota decisions by giving Texas two years to reorganize its school financing system. The court threatened that if the legislature should fail to act, the court "will take such further steps as may be necessary to implement both the purpose and spirit of this order."

The *Rodriguez* case was accepted for review by the United States Supreme Court and became the first and only equal protection case concerning school finance to be considered by the high court to date. The facts of the case were as follows:

1. The financing of elementary and secondary schools in Texas came from state and local funding.
2. Almost half of the revenues came from the state's Minimum Foundation Program, which was designed to provide a minimum educational offering in every school in the state.
3. To provide for this program, the school districts as a single unit provided 20 percent of the funding.
4. Each district contributed its share as determined by a formula designed to reflect its relative taxpaying ability. These funds were raised by property taxes.
5. All districts raised additional monies to support schools.

Rodriguez held that the revenue source varied with the value of taxable property in the districts, thus causing great disparities in per-pupil spending among districts. The lower courts concluded that the Texas system of public school finance violated the equal protection clause of the Fourteenth Amendment, finding that wealth is a "suspect" classification and that education is a "fundamental" interest. On March 21, 1973, the U.S. Supreme Court, by a vote of 5 to 4, reversed the lower court decision, which also nullified the *Van Dusartz*[28] decision in Minnesota and negated all related pending federal court actions. In general, the Court ruled that reforms with respect to state taxation and education are matters reserved for the legislative processes of the various states. Education is not a constitutional federal interest, and the Texas school finance system did not discriminate against any class of persons considered suspect, because it dealt with property-poor school districts, not individuals.

Rodriguez found that variations in local wealth were permissible under the states' constitutions. The court also made it clear that education was not a fundamental right under the U.S. Constitution. *Rodriguez* was heard in the U.S. Supreme Court and the decision was based on the equal protection clause of the Fourteenth Amendment to the United States Constitution. This decision halted school finance challenges in *federal* courts, but it did not directly affect actions of a similar nature in *state* courts. Melvin stated, "The U.S. Supreme Court decision in *Rodriguez* effectively removed school finance reform litigation from the federal courts. Further court action was forced to rely on violation of state constitutional provisions if any relief was to be afforded."[29]

That the Court did not support or agree with the disparities in per-pupil expenditures so evident in the *Rodriguez* case is indicated in the following statement by Justice Powell:

> We hardly need add that this Court's action today is not to be viewed as placing its judicial imprimatur on the status quo. The need is apparent for reform in tax systems which may have relied too long and too heavily on the local property tax. And certainly innovative new thinking as to public education, its methods and its funding is necessary to assure both a higher level of quality and greater uniformity of opportunity.

> These matters merit the continued attention of the scholars who already have contributed much by their challenges. But the ultimate solutions must come from the lawmakers and from the democratic pressures of those who elect them.[30]

This action of the Supreme Court in effect stopped plaintiffs from using the federal court system to promote school finance reform and supported property taxation as a source of local school funding. It did not stop the momentum generated in the several states to use the states' court systems to effectuate school finance reform. State courts were faced with interpreting their state constitutions in light of the *Serrano* philosophy and the *Rodriguez* decision.

State Court Cases

Since *Rodriguez* was tried in federal courts, and because the United States Supreme Court stated that education is not a *federal* constitutional right, the ruling moved similar cases away from the *federal* court system to *state* courts. This shifting was made possible in part by the U.S. Supreme Court's decisions that state constitutional law can be separated from federal interpretation. In *Oregon* v. *Hass,*[31] the Court stated that a "state is free *as a matter of its own law* to impose greater restrictions...than those this Court holds to be necessary."

In fact, the Supreme Court refused to hear cases from Wyoming, Ohio, and California *(Serrano II),*[32] verifying that school finance is a *state* matter. Melvin stated, "The Supreme Court of the United States has spoken and it is clear that the problem of reform must be handled by the states. The decision in *Rodriguez* pointed out that the high court considered the matter one for states to solve. This posture has been strengthened by the fact that the high court has refused to review decisions of state supreme courts in this area since Rodriguez.[33]

In their interpretations of state constitutions and school finance statutes, state courts have ruled in opposing ways, some in favor of the *Serrano* doctrine, some in favor of the *Rodriguez* philosophy. Those that have used the *Serrano* decision as precedent have ruled on the basis that school finance formulas violated the equal protection or equal educational opportunity clauses of their *state* constitutions or that education is a fundamental interest protected by the *state* constitution.[34] Those *state* courts that have followed the *Rodriguez* philosophy have been unable to find a rationale in *state* constitutions that requires equalizing per-pupil expenditures[35] or find as the Virginia Supreme Court ruled, that "the matter is for the legislature rather than judicial action."[36] The Michigan and New York high courts originally overturned their school finance systems based on the *Serrano* decision, but these courts later reversed those rulings, citing *Rodriguez.*[37]

Serrano v. *Priest* (II) (California, 1977)

The question of the constitutionality of California's school financing formula was raised a second time, in light of the *Rodriguez* decision in the Supreme Court, in *Serrano II.*[38] The state supreme court again ruled for equality of per-pupil expenditures, citing the equal protection clause of the state constitution. The quality of education in California could not be dependent on the wealth of parents or the residence of students. Under *Serrano II,* the trial court retained jurisdiction over related school finance questions. In 1986, a suit was filed alleging that unacceptable disparities in money expended per pupil existed among school districts. The U.S. Supreme Court refused to hear an appeal in keeping with the *Rodriquez* doctrine that such matters are *state* concerns.

Rose v. *Council for Better Education* (Kentucky, 1989)

The Kentucky Constitution states that the General Assembly shall, by appropriate legislation, provide for an efficient system of common schools throughout the state. The Supreme Court of Kentucky examined what was meant by an *efficient* system by looking at indications of educational achievement. The court determined that the poorer districts were in worse condition than the richer districts. They probed deeper, noting that 35 percent of Kentucky's adult population were not high school graduates, that Kentucky ranked nationally in the lower 20 to 25 percentile in virtually every educational category dealing with achievement, and that inadequate performance was a reality in almost all districts. The court determined that Kentucky's funding system was underfunded and inadequate, as well as unequal and inequitable, and that educational funding must be increased and become equitable.[39] The court declared the funding system to be unconstitutional, based on the education clause, and ordered the legislature to revise the state funding system to comply with the mandated efficient system of common schools.

Edgewood Independent School District v. *Kirby* (Texas, 1989)

The Texas Supreme Court held that the state's educational finance system was unconstitutional, violating the *efficiency clause* of its constitution, which mandates that the state provide an "efficient system of public schools."[40] The facts in the case were not disputed: There was a 700 to 1 ratio between the value of taxable property in wealthiest and poorest districts, and district spending per student varied from $2,112 to $19,333. The state (Kirby) argued that the word *efficient,* as used by the 1875 Texas Constitutional Convention, meant a simple and inexpensive system. In contrast, the plaintiffs (Edgewood Independent School District) contended that *efficient* did not mean simple and inexpensive but *effective* and *productive.* The court agreed with the plaintiffs and stated that "in mandating 'efficiency,' the constitutional framers and ratifiers did not intend a system with such vast [financial] disparities as now exist."

The court maintained that resultant inequities from such financial disparity were "directly contrary to the constitutional vision of efficiency." The court determined that equality was the norm, not a minimum foundation program espoused by *Rodriguez,* and directed the state legislature to provide a system that repaired the constitutional defects. The Texas legislature passed Senate Bill 1, which the Governor signed into law June 7, 1990. The plaintiffs returned to court, arguing that the legislature had not met its constitutional obligation as Senate Bill 1 did not change the school finance system enough to bring about equity. The court agreed with the plaintiffs, calling the system a "Band-Aid," and directed the legislature to change the system and make it efficient. To be efficient, the court said, the financing system must "draw revenue from all property at a substantially similar rate." Further, a justice in a concurring statement reaffirmed the doctrine of allowing the legislature to develop the system and that "[we] should not speculate or interfere with the ongoing legislature debate as to how to meet the mandates of *Edgewood*."

Coalition for Equitable School Funding v. *State of Oregon* (Oregon, 1991)

Oregon's school funding system was upheld as constitutional even though the method resulted in disparities between state standards and the amount of state funding, as well as disparities among school districts in financial benefits and tax burdens.[41]

The Coalition, composed of school districts, taxpayers, parents, and students, challenged the state's system as violating three provisions of the state constitution: (1) an article establishing a uniform and general system of common schools, (2) an article requiring that taxes be uniform on the same class of subjects within territorial limits of the authority levying the tax, and (3) an article prohibiting denial of equal privileges for immunities.

The court held that the state's financing method was valid under a subsequently enacted "safety net" constitutional provision governing school districts' levying of property taxes for operating purposes. The court interpreted the safety net to contemplate the kind of disparities of which the plaintiffs complained. The provision expressly recognized the permissibility of relying on local property taxes to fund public schools.

The court explained that "when a party argues that a *general constitutional provision* forbids the state from doing something, that argument may be answered by a *later-adopted constitutional provision* that allows the state to do that very thing." Because of the safety net provision, Oregon's system of funding public education was upheld.

Complexities of Judicial Review

Illustrative of the varied decisions from the dissimilar state courts are two decisions in midyear 2000 cases, one finding for the plaintiffs, one for the state, but each with complicating factors. In May 2000, the Ohio Supreme Court ruled for the plaintiffs in *DeRolph* v. *State of Ohio*,[42] maintaining that the system failed to meet the Ohio "thorough and efficient" standard for financing schools laid out in the Ohio Constitution."[43] The Ohio State Supreme Court, however, "declined to appoint a special master to oversee state's further efforts to comply with" provisions of the State Constitution,[44] and the Supreme Court maintains continuing jurisdiction with matter continued to June 15, 2001."[45] The decision was an ambivalent one for the plaintiffs, as they did not get a master appointed nor did they get immediate relief. They did, however, gain what they wanted most—a declaration that the school finance system in Ohio was unconstitutional.

In July 2000, the Wisconsin Supreme Court ruled in favor of the state with an even more complicated decision in *Vincent* v. *Voight*.[46] There are seven members on the Wisconsin Supreme Court, four of whom said that education was a fundamental right because the Wisconsin Constitution required a finance system that provided an equal education to the students of the state. Three of the four also stated that the plaintiffs had proved that the finance system in Wisconsin was in violation of that state's constitution. One of the four agreed that education was a fundamental right in Wisconsin's Constitution but opined that the plaintiffs had not proved that the finance system did not provide equal education required. Three of the seven justices ruled that the Wisconsin Constitution does not require that the educational opportunities provided by school districts be equal,[47] for the State Constitution does not say that the education is a fundamental right. The plaintiffs lost 4 to 3, since only three judges decided that the plaintiffs had proved their point that the finance system did not provide sufficient resources to the poorer districts to produce equal education.

In early 2001, the governor of Ohio presented an education program to "mend a school funding system twice declared unconstitutional by the state supreme court"[48] in *DeRolph* v. *State of Ohio*. The Ohio senate proposed an alternative plan. Both plans raised per-pupil expenditures, which would rely on a formula that averages expenditures in high-achieving (or high-performance) districts. The executive director of the Ohio Coalition for Equity and Adequacy in School Funding, which represent more than 500 school districts in the ongoing case, was not encouraged, for it did not address "complete systemic overhaul that the court ordered."[49] The president of the Ohio Federation of Teachers predicted "that neither funding proposal would pass muster with the state supreme court."[50] Therefore, the matter remains unsettled.

In the same year, the plaintiffs in the Wisconsin case, not succeeding in the courts, turned to the legislature. Assembly and senate members recognized that revenue limits that had been frozen since 1993 were no longer adequate to meet the skyrocketing costs of hard-to-control items such as special education and energy costs. In seeking a solution, lawmakers proposed raising revenue-limiting caps, allowing exemptions and establishing reimbursement programs for certain high-cost programs. The plan with the most support among legislators allowed local districts to increase spending without requiring a local referendum. Support from the governor was not assured.[51] Desideratum may prove evasive.

The issues in these two cases paralleled one another in that the public school finance formulae did not provide for equitable school financing to the poorer districts. The finance frameworks were measured against the two states' constitutions and state statutes. In Ohio, the court ruled that "the most glaring weakness…is the failure to specifically address the overreliance on local property taxes."[52] In Wisconsin, however, the majority of the court ruled that "so long as the legislature is providing sufficient resources so that the school districts offer students the equal opportunity for a sound basic education as required by the constitution, the state school system will pass constitutional muster."[53] Therefore, Wisconsin's finance system was considered acceptable to the provisions of its state constitution. These two cases portray the issues and court responses of fundamental questions that are raised. Howe stated that the state supreme courts consider six questions:

- Public education: Is it a state or local responsibility?
- Judicial review: What is the jurisdiction of the courts in education finance reform?
- "Thorough and efficient" education: What is the constitutional definition?
- School district funding levels: Does equal opportunity mean equal funding or simply constitutional adequacy?
- State education funding systems: What reforms are required to achieve constitutionality?
- Local property tax as the chief source of school revenue: Is it necessary for local control? Are funding disparities a result of the property tax system?[54]

How the state supreme courts answer these questions are determinants by which the school finance cases are decided. This decision-making process raises broader issues, such as the lawmaking authority of the various state legislatures and usurpation of that authority by judicial activists, the judicial power of the courts and the failure of governmental entities to comply, and who best understands education and the best means to finance it.

Meeting Court Mandates

Cases in New Jersey are indicative of the struggle states have in obliging the court in providing equitable funding for the schools when the courts require changes. In May of 1997, the New Jersey Supreme Court, reacting to a bill that limited the state's financial obligation to poor districts, ruled for the fourth time in 15 years that the state finance system was unconstitutional. The latest ruling dealt with the inequities of funding 28 of the poorer districts in the state, which would "perpetuate a two-tiered school system" that would require poor students to do more with less.[55]

In the first case, *Robinson* v. *Cahill* (1972),[56] the New Jersey Superior Court of Hudson County ruled that the state's educational financing system created inequities that violated the state constitution's provisions and also the equal protection clause of the Fourteenth Amendment.[57] The court said that pupils living in districts with low assessments of property per child were being discriminated against and that such a system likewise discriminated against taxpayers, who shoulder unequal burdens in providing funds for education. The court directed the state legislature to approve a new program for public school financing with less dependency on local property taxes, or face further court action. Although there had been disparities for many years prior to the first case, the result of *Robinson* v. *Cahill* was significant in that it required the state to provide a "thorough and efficient" education. The term is perplexing and continues to cause much debate among legislators and educators in arriving at a suitable definition. The same is true in other states that find similar language in their constitution, such as *thorough* and *uniform* in Colorado and Idaho and *efficient* in Kentucky.

In 1976, with pressure from the high court, the legislature adopted the state's first income tax to raise revenue for the cities. Advocates for equal funding believed that New Jersey was still in noncompliance, so action was followed in 1990 by the *Abbott* v. *Burke* and *Abbott II*[58] decisions.

The *Abbott* cases were a continuation of the *Robinson* v. *Cahill* litigation. *Robinson* declared that the New Jersey Public School Education Act was facially constitutional even though the possibility existed that some districts might not provide the required *thorough and efficient education.* The plaintiffs in *Abbott II* contended that the act was unconstitutional, as applied to certain districts, because such financial disparities existed and the act was unconstitutional in its entirety.[59] Finally, the court agreed and ruled that the legislature had to provide a finance system that ensured that children in property-poor districts would receive an education substantially equal to that of children in the property-rich districts.

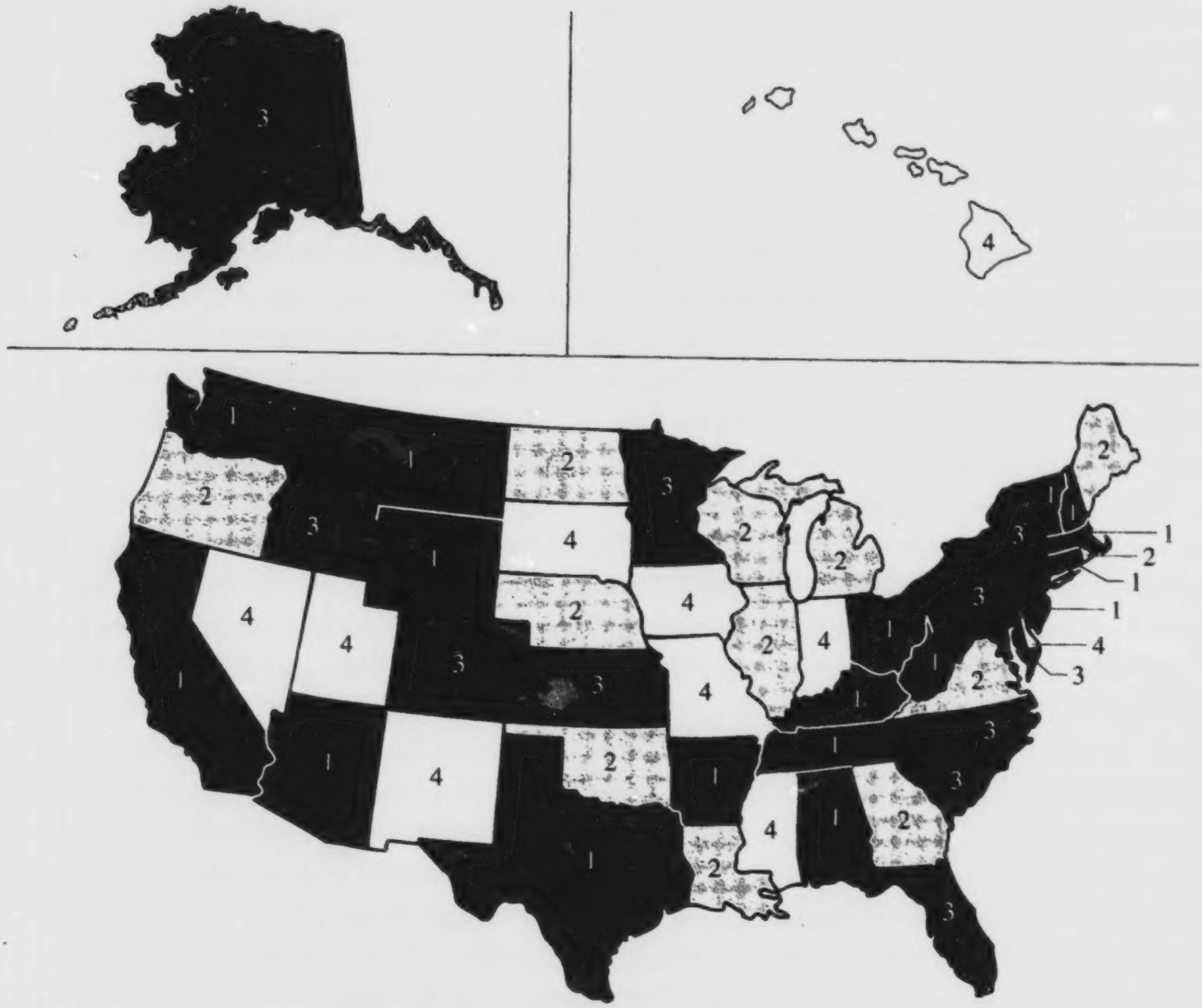
Revisiting the issue, the court ruled by a 5–1 majority in 1997 that "the state has had seven years to comply with a remedy intended to address, albeit partially, a profound deprivation that has continued for at least 25 years.... The remedy of increased funding for educational improvement in the poor urban districts should not be delayed any further."[60]

Court Cases and Equity

Financing education equitably is an important issue. In those states where the state Supreme Courts ruled that school finance formulas violated their state constitutions, language such as this was used: "While precisely equal funding may not be achieved or even necessary, district wealth alone should not determine educational opportunity." [61] In states that ruled their finance formulae were acceptable, statements such as these were used: "Plaintiffs failed to prove that the state is not fulfilling its responsibility and that the courts need to step in" and "The state's method of funding [is] for the governor and the legislature to address." [62]

Apparently those plaintiffs who have challenged unequal school funding followed Justice Marshall's[63] theme of further reviews of state educational funding schemes under state constitutional provisions, rather than that of Justice Powell's, which was that "these matters merit the continued attention of the scholars who already have contributed much.... Ultimate solutions must come from the lawmakers and from the democratic pressures of those who elect them."[64] It is relatively easy to make mechanical arithmetic adjustments to improve financial funding formulae. The problem has been negotiating the differing political points of view, which has prevented legislation that could perhaps correct the financial problems.

The action in the courts is dramatic. When either side loses, other suits often follow. The denouement of the court cases has been perplexing. Figure 9.2 shows state



1. Plaintiffs won at state supreme court level. (17 states)
2. Plaintiffs lost at state supreme court and there has been no further complaint filed. (12 states)
3. Plaintiffs lost at state supreme court level but there have been further complaints filed. (11 states)
4. No supreme court litigation is present. (10 states)

FIGURE 9.2 Status of School Finance Constitutional Litigation: July 2000
Source: http://nces.ed.gov/edfin/Litigation/status.asp.

court activity, in a map form, as of July 2000. The status of school finance constitutional litigation, by state, title, and result, is shown in Figure 9.3. A giant in school finance reform, Charles Scott Benson, in testimony before a committee of Congress, added a somber note to school finance reform. He stated that one must be careful when wishing for things because one may just get what one wished for. People worked hard for equity in California. They got it. Now they don't like it!

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FIGURE 9.3 Status of School Finance Constitutional Litigation

1. Plaintiffs won at the supreme court level or the supreme court approved a trial court decision for plaintiffs:

Alabama	*Opinion of the Justice*, 1993 *Ex Parte James*, 1997
Arizona	*Shofstall* v. *Hollins*, 1973 *Roosevelt Elem. School Dist. 66* v. *Bishop*, 1994 ***Hull* v. *Albrecht*, **1997, 1998
Arkansas	*Dupree* v. *Alma School District*, 1985 *Tucker* v. *Lake View School Dist. No. 25*, 1996
California	*Serrano* v. *Priest*, 1971, 1976
Connecticut	*Horton* v. *Meskill*, 1977, 1985 ***Johnson* v. *Rowland*,** filed 1998
Kentucky	*Rose* v. *Council for Better Education*, 1989
Massachusetts	*McDuffy* v. *Secretary of Education*, 1993
Montana	*State ex. Rel. Woodahl* v. *Straub*, 1974 *Helena Elementary School District No. 1* v. *State*, 1989, 1990
New Hampshire	***Claremont School District* v. *Governor*,** 1993, 1997, 1998
New Jersey	*Robinson* v. *Cahill*, 1973 *Abbott* v. *Burke*, 1985, 1990, 1994, 1997, 1998
Ohio	*Board of Education* v. *Walter*, 1979 *DeRolph* v. *State*, 2000*
Tennessee	***Tennessee Small School Systems* v. *McWherter*,** 1993, 1995
Texas	*Edgewood* v. *Kirby*, 1989, 1991, 1995
Vermont	*Brigham* v. *State*, 1997
Washington	*Northshore School District No. 417* v. *Kinnear*, 1974 *Seattle School District No. 1* v. *State*, 1978
West Virginia	*Pauley v. Kelly*, 1979, 1984 *State ex rel. Boards of Education* v. *Chafin*, 1988 ***Tomblin* v. *Gainer*,** 1997
Wyoming	*Washakie* v. *Hershler*, 1980 *Campbell* v. *State*, 1995

2. Plaintiffs lost at supreme court level and no later case is pending:

Georgia	*McDaniel* v. *Thomas*, 1981
Illinois	*Committee for Educational Rights* v. *Edgar*, 1996
Louisiana	*Charlet* v. *Legislature of State of Louisiana*, 1998 (consolidated with) *Minimum Foundation Commission* v. *State*, 1998
Maine	*School Administrative District No. 1* v. *Commissioner*, 1995

(continued)

FIGURE 9.3 Continued

Michigan	*Milliken* v. *Green*, 1972, 1973 *East Jackson Public Schools* v. *State*, 1984
Nebraska	*Gould* v. *Orr*, 1993
North Dakota	*Bismark Public Schools* v. *North Dakota*, 1993
Oklahoma	*Fair School Finance Council of Oklahoma, Inc.* v. *State*, 1987
Oregon	*Coalition for Equitable School Funding, Inc.* v. *State*, 1991*
Rhode Island	*City of Pawtucket* v. *Sundlun*, 1995
Virginia	*Scott* v. *Virginia*, 1994
Wisconsin	*Kukor* v. *Grover*, 1989 *Vincent* v. *Voight*, 2000*

3. Plaintiffs lost at the supreme court level, but further complaints are either pending or were sustained without a final determination or settled:

Alaska	*Matanuska-Susitna Borough* v. *Alaska*, 1997 ***Kasayulie* v. *State*,** filed 1997
Colorado	*Lujan* v. *State Board of Education*, 1982 ***Giardino* v. *Colorado State Board of Education*,** filed 1998
Florida	*Coalition for Adequacy and Fairness in School Funding* v. *Chiles*, 1996 ***Honore* v. *Florida State Board of Education*,** filed 1999
Idaho	*Thompson* v. *Engelking*, 1975 *Idaho Schools for Equal Educational Opportunity* v. *Evans*, 1993
Kansas	*Knowles* v. *State Board of Education* *Unified School District N. 229* v. *State*, 1994 ***Robinson* v. *State*,** filed 1999
Maryland	*Hornbeck* v. *Somerset County*, 1983 *Bradford* v. *Maryland State Board of Education*, Consent decree 1996
Minnesota	*Skeen* v. *Minnesota*, 1993 ***Minneapolis Branch, NAACP* v. *State*,** filed 1995 *Independent School District N. 625* v. *State*, 1999 ***Xiong* v. *State*,** filed 1998
New York	*Board of Education* v. *Nyquist*, 1982 *Reform Educational Financing Inequities Today* v. *State*, 1995 ***Campaign for Fiscal Equity Inc.* v. *State of New York*,** 1995
North Carolina	*North Carolina Britt* v. *North Carolina State Board of Education*, 1987 ***Leandro* v. *State*,** 1997
Pennsylvania	*Dansen* v. *Casey*, 1979 *Marrero* v. *Commonwealth of Pennsylvania*, 1998 ***Pennsylvania Assoc. of Rural and Small Schools* v. *Casey*,** 1998
South Carolina	*Richland County* v. *Campbell*, 1988 ***Abbeville County School District* v. *State of South Carolina*,** 1999

FIGURE 9.3 Continued

4. The supreme court has not rendered a decision on the school finance system, and no litigation is now pending.

Deleware	
Hawaii	
Indiana	
Iowa	
Mississippi	
Missouri	*Committee for Educational Equality* v. *State of Missouri,* 1994 (procedural ruling)
Nevada	
New Mexico	
South Dakota	
Utah	

Note: Pending cases are set in bold italics.

*Cases updated from original source, July 2000.

Source: http://nces.ed.gov/edfin/Litigation/Status.asp. Author: David Long.

Principles Established by Court Decisions

The court decisions of *Serrano, Rodriguez,* and other related state cases have seemed to agree, with the following general principles or conclusions:

1. Education is considered to be an important interest of the state.
2. Since educational needs vary from district to district, the state does not have to require all of its school districts to spend the same amount of money per pupil or offer identical educational programs.
3. State legislatures are not required to eliminate property taxes in favor of taxes on other sources of revenue.
4. Schools may make additional expenditures for programs for exceptional children, compensatory programs for culturally disadvantaged children, and programs for other educational needs that are significant and worthy of special treatment.
5. No specific plans have been mandated to achieve equitability in school finance formulas.

Pressure for Reform

After the *Rodriguez* decision, many feared that the school finance reform process would be slowed if the court actions alone were used. Therefore, the school finance court decisions resulted in general pressure on most state legislative bodies to bring reform to school finance systems. Kirp wrote, "The Supreme Court's decision in *Rodriguez* demolished the hope that the courts would lead a school finance revolution of national scope. Although suits premised on equal protection and specific educational provisions in state constitutions have subsequently been filed, the judicial response has been at best mixed."[65]

Legislative bodies, whether or not they are faced with mandates from the courts, have had much activity in developing legislation dealing with the equity issue. Following Justice Powell's admonition in *Rodriguez* that these matters merit the continued attention of scholars, lawmakers, and the people, some different prerogatives were used. They included full state funding; elimination or reduction of local tax levies; use of a statewide property tax; increase in state income taxes, sales taxes, or both; assumption by the state of all capital-outlay costs; increases in school expenditures in poor districts, with or without a decrease in expenditures in more affluent ones; and provisions for additional local revenue to supplement a state-funded school program.

Finance Studies and Reform Efforts

Several studies have had an impact on state school finance programs. Perhaps the most influential report was "A Nation at Risk: The Imperative for Educational Reform." The report maintained that a major cause of the once unchallenged preeminence of education in the United States affecting commerce, industry, technology, and innovation was mediocrity in the nation's public schools.

Verifying public sentiment in 1983, the report from the National Commission on Excellence in Education indicated that the U.S. schools inadequately met the challenges of global competition. The now famous document stated:

> Our nation is at risk. Our once unchallenged preeminence in commerce, industry, science, and technological innovation is being overtaken by competitors throughout the world. This report is concerned with only one of the many causes and dimensions of the problem, but it is the one that undergirds American prosperity, security, and civility. We report to the American people that while we can take justifiable pride in what our schools and colleges have historically accomplished and contributed to the United States and the well-being of its people, the educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a nation and a people. What was unimaginable a generation ago has begun to occur—others are matching and surpassing our educational attainments.
>
> If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war.[66]

The Commission viewed the decline in standardized test scores, illiteracy rates, and poor achievement in mathematics and science as a disaster. They called for increased high school graduation requirements in English, mathematics, science, social studies, and computer science. More time for education by extending the school day or the school year was recommended. Teachers were to work longer, have career ladder opportunities, and act as mentors if experienced, or be mentored if novices.

Factors Limiting School Finance Reform

After "A Nation at Risk," governors from many states assumed leadership for education, pressuring state departments of education and legislative bodies to mandate reform measures. The movement saw the development of two distinct groups of citizens seeking reform, with divergent backgrounds and approaches to the problems they were trying to solve. In the first group were those with professional experience in education, many of whom had vested interests and some degree of expertise and practical understanding of the problems to be solved. These were school finance professors, public school administrators, and specialists in state departments of education—the "friends" of public education. These were the "authorities" in the field, working for improvement of their profession.

The second group of reformers included those who saw the problem from a different perspective—lawyers, economists, political scientists, representatives of the disadvantaged, members of state legislatures, representatives and members of minority groups, and others with only secondary interest in education per se. This group usually worked with community and state political leaders to bring about reform sufficient to avoid *Serrano*-type court decisions or to revise or defeat proposed laws that would repudiate their state school finance systems.

Unfortunately for the schools, these two groups did not always agree about goals or methods. Communication and collaboration were often neglected or minimized, and consequently the results were not always satisfactory.

Other problems plagued the advocates of school finance reform. The differences that have always existed among urban, suburban, and rural districts were not decreased in the struggle to improve the financing of education. For example, there was seldom any solution to the question of providing additional funds for city districts to compensate for municipal overburden. The problem of getting laws enacted to satisfy the rulings of courts was always difficult when such proposals were thrown into the political arena. Many legislative bodies found it politically impossible to enact legislation that would meet the "requirements" established by courts in the same state—largely due to the fact that any school finance program would inevitably favor one kind of school district over another.

California's Proposition 13

Students of physics frequently cite the law, "Action equals reaction." They observe the swing of the pendulum that moves an apparently equal distance in two opposite directions. Applying such observations to the real world outside the laboratory, one can observe this physical law operating with more dramatic and perhaps more consequential results in the realm of the social sciences. Everywhere are examples of the inevitability of movement to the liberal side, bringing reverse action to the conservative, and vice versa. The progress of a society and its institutions in the direction of its ultimate goals is too often marked by a few steps one way, followed immediately by almost equivalent steps in the other direction.

This phenomenon has been observed many times in the field of public school finance. California's Proposition 13, said by its ardent sponsors to be a panacea for a taxpaying society, came more quickly and with more force and national influence than was generally anticipated. In one massive effort, the voters of California, by almost a 2 to 1 margin, voted to restrict property taxes to 1 percent of the 1976 assessed market value of such property, thus reducing property tax revenues by about 57 percent. The act also provided that a two-thirds favorable vote of the legislature would be necessary to increase future annual tax assessments to a maximum of 2 percent.

Although the quick and convincing passage of Proposition 13 caught many people by surprise, some voter reaction to inflationary costs of education and increasing taxes had long been anticipated by knowledgeable people in the field of school finance. Persistent resistance to taxes could be seen on every hand—defeated bond and school budget elections, increases in the number and size of circuit-breaker and other tax relief measures, and increases in high-cost services to the elderly and the disabled were strong and persuasive indicators of difficulties to come in providing adequate funds for public education and other government services.

California was an extremely fertile ground for tax retrenchment. In addition to high property values due to extreme inflation, the state had a highly progressive income tax, a high sales tax, and a record of high and steadily increasing property taxes. Its system of keeping assessments in line with the inflationary market value of property, although philosophically desirable, also worked to the benefit of the instigators of Proposition 13. Increases in market values were quickly transformed into higher personal taxes on real property, while in many other states increased assessments tended to lag far behind market value increases. Then, too, it appeared to be "popular" practice in California to keep the tax structure producing revenues greater than expenditures, with a consequent buildup of reserves that could be used in emergencies. Present, too, was the political notion that a surplus of state government revenues represented high efficiency in state administration rather than simply excessive taxation. The California legislature seemed to be reluctant to enact a satisfactory tax relief measure in spite of numerous attempts to do so.

The passage of Proposition 13 instantaneously affected other states. A survey of all 50 states conducted one year later revealed the following: 22 states reduced property taxes, 18 states reduced income taxes, 15 states curtailed in some fashion the collection of sales taxes, 8 states voted spending limits, and 12 states repealed or reduced various other taxes.[67]

Proposition 13 was not immune from judicial review. Over time, Proposition 13 resulted in dramatic disparities in the taxes paid by persons owning similar pieces of property. Long-term owners paid lower taxes, while newer owners paid higher taxes. One such new owner, Stephanie Nordlinger, claimed the "scheme violated the Equal Protection Clause of the Fourteenth Amendment" and brought suit in *Nordlinger* v. *Hahn.*[68] The County Superior Court dismissed the complaint and the state Court of Appeal affirmed. Nordlinger appealed to the U.S. Supreme Court and on June 18, 1992, the case was decided with the Court ruling (8–1) that Proposition 13 and its attendant tax disparity did *not* violate the Equal Protection Clause. Speaking for the Court, Justice Blackman stated:

> The Equal Protection Clause of the Fourteenth Amendment commands that no state shall "deny to any person within its jurisdiction the equal protection of the laws." The Equal Protection Clause does not forbid classifications…and as a general rule "legislatures are presumed to have acted within their constitutional power despite the fact that, in practice, their laws result in some inequality…and judicial intervention is generally unwarranted"…and we must decline petitioner's request to upset the will of the people of California. The judgement of the Court of Appeal is affirmed.[69]

Finance Reform or Tax Reduction

In each case where limits have been imposed, the state faces the paradox of substantially altering property taxes while preserving school programs. To the degree that tax reductions are made and/or school services reduced, it appears that the friends of education have failed to make a legitimate case for the high costs of school services. That there is conflict between the forces favoring school finance reform and those favoring tax reduction is shown in the following statement:

> There is an impending clash between two major public finance movements. One is stimulating large increases in state/local public spending while the other is galvanizing a trend toward lower expenditures. The first is known as the "school finance reform movement." Its supporters…have developed a new focus on equity in recent years. The second movement is led by a strong network of state policy makers who are pushing for tax or spending limitations.[70]

Thus, the "battle" between those who view equity in educational finance as a top priority and those who feel that tax reduction is necessary has continued. It was apparent that taxpayers were demanding some relief from the heavy burden of high taxes. Gradual decreases rather than abrupt and destructive decreases in taxes, placing reasonable limits on the expenditures of government, the establishment of tax levy limits, the liberalization of circuit-breaker laws for the tax relief of the poor and the disabled, and greater centralization and consolidation of schools in many areas of the country are better methods of obtaining taxpayer justice than indiscriminate cuts that slowly destroy social institutions.

Summary

The courts exert considerable pressure on the states to improve their school finance systems. The decisions have been divided and there is no clear trend in these decisions. Some guiding principles have emerged for school finance formulae.

Serrano v. *Priest* in California was an influential court case involving school finance. As a result of *Serrano,* many states made an effort to improve their method of financing education. *San Antonio Independent School District* v. *Rodriguez* ended appeals in the federal courts, when it was ruled that education was not a *federal* constitutional right. The school finance issues continued in the state courts and were measured against *state* constitutional rights. States that followed the *Serrano* philosophy found education to be a fundamental right for the students in those several states, or found school financing patterns to be in violation of state education clauses (17 states have ruled thusly). States that followed the *Rodriguez philosophy* found no justification for equal-per-pupil expenditures in their state constitutions or ruled that the matter was for legislatures to decide (23 states have ruled that way). In 10 states, no litigation is present or the state Supreme Courts have not rendered decisions.

The impact of the courts was altered by a tax-reduction movement and/or legislatures deciding they did not have the funds to comply. The tax-reduction movement was heightened by the passage of Proposition 13 in California. Several states followed California's lead in reducing taxes. In the twenty-first century, the effect of court actions, school finance reform, and tax reduction will be an ongoing matter—the results of which are not yet known.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *strict scrutiny, intermediate scrutiny, rational basis, equal protection, Serrano philosophy, Rodriguez doctrine, equal protection clause, constitutional provision, Powell's answer, Thurgood's answer.*
2. Trace the history of tax-restrictive legislation in one particular state. Indicate the major forces favoring such tax restrictions as well as those opposing it.
3. Produce the evidence to show that tax-restrictive legislation penalizes schools more than any other function of state and local government.
4. In class, organize into groups and debate the consequences of Proposition 13.
5. Interview a school finance professor, a public school administrator, and a school finance specialist in a state department of education about financing of education in the next 10 years. Then interview a state legislator, a tax lawyer, an economist, a political scientist, a spokesperson for the disadvantaged, and a spokesperson for a minority group about the same subject. Compare and contrast their opinions and viewpoints.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER

10 Public Funds and Nonpublic Schools

The religion article of the First Amendment walks a fine line between the establishment clause and the free exercise clause. Care must be taken to not endorse religion nor prohibit freedom of expression. In school finance there are pros and cons to many issues of using public funds in nonpublic schools. Administrators have an obligation to understand the constitution so that rational decisions can be made on such issues and they are understood by the public.

—Charles N. Quigley, 2001

Since the early separation of church and state functions, the predominant philosophy of government has been that some services can be supplied better by the public sector. Education is a notable example. Presently, the majority of people would not favor removing the responsibility of government for this important public service. However, legislators, private entrepreneurs, and some citizens are questioning the ability of personnel in the public sector to operate the schools efficiently. Privately sponsored schools have been encouraged for those groups and individuals who are willing to support them financially in addition to participating in financing the public school system. Inroads have been made in several states to allow a greater degree of decision making by patrons who have been instrumental in developing charter schools that are funded publicly and have little if any school district supervision.

A Controversial Issue

Historically, the illegality of direct government support for private and parochial schools was well established in the codes of the states and at the federal level. However, some state governments and the federal government are enacting legislation that provides some tax funds for use by nonpublic schools. The courts, particularly the U.S. Supreme Court, have usually disallowed direct state financial support to private and parochial schools. They have allowed Congress and state legislatures to provide support that promotes a secular principle, does not foster excessive government entanglement, and does not advance or inhibit religion.

Those who favor direct public aid to nonpublic schools base their arguments on the following points:

1. Parents should have freedom of choice in the education of their children. Proponents cite the case of *Pierce* v. *Society of Sisters* (1925) as a guarantee of such choice. Said the court, "The fundamental theory of liberty under which all governments in this union repose excludes any general power of the State to standardize its children by forcing them to accept instruction from public teachers only."[1]
2. There is no evidence to support the fear that divisiveness in education will be caused by the existence and operation of nonpublic schools.
3. The failure of nonpublic schools would create a tremendous impact on the financing of public education. From the economic point of view, it would be better to finance nonpublic schools to the extent necessary to keep them solvent.
4. The free exercise clause of the First Amendment allows such actions.

Opponents of direct aid to nonpublic schools argue that:

1. Parochial aid represents a backward step, since this country once maintained such a system of education but has since altered the concept.
2. Private schools tend to discriminate against students in terms of race and religious background.
3. Such a practice violates the establishment clause of the First Amendment.
4. Solution of the problem should be based on principle, not on economic considerations.

One of the basic principles of U.S. education that has received general acceptance through the years is that public funds cannot legally be used for sectarian or other nonpublic schools. However well the principle has been accepted in theory, the issue is still debated, as indicated in the following opinion expressed by Justice Brennan in *Aguilar* v. *Felton* (1985):

> We have often grappled with the problem of state aid to non-public, religious schools. In all of these cases, our goal has been to give meaning to the sparse language and broad purposes of the cause while not unduly infringing on the ability of the states to provide for the welfare of their people in accordance with their own particular circumstances.... We have noted that the three-part test first articulated in *Lemon* v. *Kurtzman* guides the general nature of inquiry in this area (*Mueller* v. *Allen*, 1983).... First the statute must have a secular legislative purpose; second, its principal or primary effect must be one that neither advances nor inhibits religion; finally, the statute must not foster an excessive government entanglement with religion.[2]

The courts have relied on the so-called *Lemon* test since 1971 in all cases involving the sensitive relationship between government and religion in the education of children.[3] Although not directed to the finance issue, the *Lee* v. *Weisman* case, which was decided in 1992,[4] the *Jones* v. *Clear Creek Independent School District* case, which was decided in 1992,[5] and the *Goluba* v. *Ripon* case, which was decided in 1995,[6] were examples of the uncertainty of how the church-state relationship should operate. These cases involved the constitutionality of ceremonial prayer at public school events such as graduation. In *Weisman,* the U.S. Supreme Court held that "religious exercises may not be conducted at a graduation where those who object to the prayer are induced to conform."[7] In *Jones,* the Fifth Circuit held that such prayers were constitutional, if they were student initiated. The Court stated, "The practical result of our decision...is that students can do what the state acting on its own cannot do to incorporate prayer in public high school graduation ceremonies.[8] The case was appealed to the U.S. Supreme Court. The Court remanded to the Circuit Court. On January 11, 1995, the Seventh Circuit ruled in *Goluba* that when a graduating student's initiated prayer occurred—even when school officials were aware that it would happen—such action was acceptable. The Justice Department, in their friend-of-the-court brief had urged the Supreme Court to scrap the *Lemon* test and allow "for greater 'civic acknowledgments of religion in public life.'"[9]

In 2000, in a case involving prayer at high school football games, the Supreme Court in *Sante Fe Independent School District* v. *Doe* (Case No. 99-62) struck down student-led prayer. One reason given was that the microphone used in prayer was purchased with taxpayers' money. Prayers in the South have continued without using a microphone. Court cases in that regard are expected to continue, as well as additional challenges to prayer at graduation, citing *Sante Fe* as a precedent.

Nonpublic School Enrollments

About 11 percent of U.S. students in kindergarten through grade 12 are in nonpublic schools, with the largest number operated by religious organizations. The percentage has remained relatively constant since 1970 (see Table 10.1).

The problem of church-state relations in financing education of nonpublic schools is not merely a question of the number of students or the number of schools

TABLE 10.1 Enrollment in Public and Private Schools, by Control and Level with Projections: 1970–2005 (in thousands)

Control of School and Level	1970	1980	1990	2000 Proj.	2005 Proj.
Total	**51,257**	**46,209**	**46,448**	**54,402**	**55,871**
Public	45,894	40,878	41,216	48,323	49,651
Private	5,363	5,331	5,232	6,079	6,220
Private percent	10.5	11.5	11.3	11.2	11.1

Source: Compiled from data in *Projections of Education Statistics to 2005*, National Center for Education Statistics, U.S. Department of Education, NCES 95-169, January 1995.

involved; there is also the question of where those schools and students are located. Nonpublic schools and students are concentrated in certain states, and particularly in large cities. Failures of nonpublic schools in such states as Oklahoma and Utah (where only 1.5 percent of school children attend nonpublic schools) or North Carolina (where approximately 5 percent attend nonpublic schools) would not cause a significant financial adjustment. On the other hand, major closing of nonpublic schools in Rhode Island (22 percent), New York (21 percent), or Pennsylvania (16 percent) would cause a tremendous financial burden on the public schools.

It would seem that the states with the highest percentage of students attending nonpublic schools would be the biggest losers if public monies were diverted to such schools.

The Law and Church-State Relations

Determining an acceptable relation of church and state has been a concern in this country since its founding. The early New England colonies, except for Rhode Island, made the Congregational Church their official church, whereas the colonies south of Maryland were Anglican. New York had a "multiple establishment" pattern of church-state relationship. Only Rhode Island, Pennsylvania, and Delaware had no officially established church. Vestiges of church-state relations have continued to exist in one form or another.

Legal Provisions for Separation

The U.S. Constitution Article VI, Section 3, and especially the First Amendment that was included in 1791 in the Bill of Rights (10 amendments that delineated the rights of individuals), placed in U.S. law the principles of freedom of religion and separation of church and state. Article VI provides that "no religious test should ever be required as a qualification to any office or public trust under the United States." The First Amendment, in establishing church-state separation, declares, "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof." How to provide the proper and complete application of these principles is highly controversial. The Fourteenth Amendment, often referred to as the "due process" amendment, was established in 1868. In the years since that time, it has been interpreted by the courts as applying the First Amendment and other federal guarantees to the individual states. It provides that "no state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property without due process of law, nor deny any person within its jurisdiction the equal protection of the laws."

The Courts and the Child-Benefit Theory

The Supreme Court of the United States has ruled a number of times on the legal relation of church and state as intended by the amendments to the Constitution. For the various state legislative bodies and for the people generally, the Court's decisions have had varying degrees of palatability. The lack of complete support by the states for the federal position is partially vindicated by the general lack of unanimity among the Court members themselves in many of these decisions, some of which were made by the narrowest possible vote of the Court.

In *Cochran* v. *Louisiana State Board of Education* (1930),[10] the United States Supreme Court upheld the practice of Louisiana in providing free textbooks, paid for by tax funds, for pupils attending nonpublic schools. In the view of the Court, this was not a violation of the First or Fourteenth Amendment and was therefore legal. The basis for this reasoning was the "child-benefit" theory, according to which the children benefited directly, not the churches they represented who were benefited indirectly, were the beneficiaries of the funds expended.

In the verdict in *Everson* v. *Board of Education* (1947),[11] the United States Supreme Court held that using New Jersey tax funds allocated to school districts to reimburse parents for the cost of bus fares to attend nonpublic schools was legal and did not violate the First or Fourteenth Amendment. Seeking the protective cloak of the child-benefit theory, the Court regarded the action as safe, legal, and expeditious public welfare legislation. The decisions in *Cochran* and *Everson* are not binding on other states. It is still an individual state decision.

A few of the states have reacted in support of the *Cochran* decision; about half of them have accepted the essence of the *Everson* verdict. State courts in Alaska (1961), Wisconsin (1962), Oklahoma (1963), and Delaware (1966) "have struck down enactments authorizing free busing of children attending denomination schools."[12] Connecticut (1960) and Pennsylvania (1967) upheld some variations of the *Everson* decision.

In 1975, the U.S. Supreme Court (*Meek* v. *Pittenger,* 421 U.S. 349, 95 S. Ct. 1753 (1975)) allowed textbooks to be loaned to nonpublic school students but disallowed the use of public funds for services, equipment, and instructional materials. In 1977, the Court (*Wolman* v. *Walter,* 433 U.S. 229, 97 S. Ct. 2593 (1977)) ruled that the provision of books, testing and scoring, and diagnostic and therapeutic services was constitutional, based on the child-benefit theory. State support of field trips, instructional materials, and equipment was ruled unconstitutional, as they aided schools rather than children per se. In 1986, in *Witters* v. *Washington Department of Services for the Blind* (106 S. Ct. 748 (1986)), the Court ruled that a blind student who was studying at a Christian College to become a minister, and who had been denied vocational assistance, could receive it. The basis of the decision was that aid for the *student* was acceptable.

Nearly all of the 50 state constitutions contain provisions that prohibit spending public funds for sectarian purposes. With rare exceptions, these provisions have been followed, and using state funds for operating nonpublic schools has been relatively airtight until recent years.

One of the first setbacks for opponents of using state funds for parochial schools came in Pennsylvania. In 1968, that state passed an act authorizing the state superintendent of public instruction to contract for the purchase of secular education services for students from nonpublic schools located in the Commonwealth of Pennsylvania. It provided that certain revenues from state harness racing should go into a nonpublic elementary and secondary education fund for the financing for all of these expenditures. No public school funds were involved.

Because the Pennsylvania legislation was controversial and might potentially influence other states, litigation was expected. It soon materialized; suit was brought in June 1969 against the state superintendent of public instruction and the state auditor general. The plaintiffs, including many professional and religious groups, charged that the legislation violated the First and Fourteenth Amendments to the U.S. Constitution. Late in 1969, a federal court ruled on the case, and *Education U.S.A.* reported:

> Catholic educators are hailing a federal court decision in Pennsylvania as a legal breakthrough supporting state aid to nonpublic schools. The ruling upheld the nation's first state aid law for nonpublic schools by dismissing a suit challenging the constitutionality of the 1968 Pennsylvania statute. The 2 to 1 majority decision approved the state statute which provides for $21 million this year and $41 million next year in state aid to nonpublic schools. The court said the law neither creates nor supports the establishment of religion.[13]

Intervention by the Courts

Acclaim for the decision in Pennsylvania was short-lived. In June 1971, the U.S. Supreme Court overruled the district court decision and declared the Pennsylvania law to be in violation of the principle of separation of church and state. The decision was accompanied, however, by a contrary one regarding public support of nonpublic colleges and universities in Connecticut.

In these rulings, the Supreme Court acted simultaneously on three appeals of cases concerned with the use of public funds for nonpublic schools. These cases included *Tilton* v. *Richardson* (public funds for higher education in Connecticut), *Lemon* v. *Kurtzman* (public funds for providing educational services in nonpublic elementary and secondary schools in Pennsylvania), and *DiCenso* v. *Robinson* (public funds to provide supplements to the salaries of teachers in certain nonpublic elementary schools in Rhode Island).[14]

In considering the three cases, the Court looked at a number of issues: (1) Is aid to church-related colleges and universities constitutionally different from similar aid to church-related elementary and secondary schools? (2) May the state or the federal government or both provide direct aid to nonpublic schools, or must they confine themselves to indirect assistance like that already approved in the *Everson* and *Cochran* cases? (3) To what extent do these cases support or violate the establishment clause, which requires avoidance of excessive government involvement or entanglement with religion?[15]

In *Tilton,* the Court sustained the Connecticut issue for public aid to colleges and universities. In *Lemon,* it rejected the Pennsylvania law to aid nonpublic elementary and secondary schools, and it also rejected the Rhode Island plan for supplementing teacher salaries in nonpublic schools. These cases determined that there is less likelihood of state involvement or entanglement in the affairs of a church-related college than in a church-related elementary or secondary school.

Evidence of the controversial nature of many other state and federal plans for using or not using public funds for nonpublic schools is shown by the following representative examples of many laws and court rulings:

- The U.S. Supreme Court ruled against tax benefits for any private segregated school set up in Mississippi to avoid integration.
- The Maine Supreme Court ruled against church-state–related legislation. The court pointed out that financial conditions created by closing parochial schools were not the issue—the Constitution, not economics, was at stake.
- In 1969, the California legislature made profit-making enterprises not connected to their tax-exempt purpose (religion) subject to the state's 7 percent tax on net income.
- The West Virginia Supreme Court ruled in 1970 that county school systems must furnish bus transportation to parochial school students.
- A New York law that would have provided $33 million a year to church-related schools for teacher salaries, instructional materials, and other costs of instruction was declared unconstitutional by a three-judge federal panel in 1971.
- Ohio's law permitting aid to nonpublic schools was upheld by the Ohio Supreme Court in November 1971, but in October 1972, the U.S. Supreme Court affirmed the decision of a federal district court that had ruled against the state's making direct grants to parents of children attending nonpublic schools.
- The National Defense Education Act, the Elementary and Secondary Education Act, the Education and Consolidation and Improvement Act of 1981, and the Improving America's Act of 1994 have all provided federal funds to public school districts that aid students in nonpublic schools through the "pass-through" provision.
- In June 1983, the Supreme Court, in *Mueller* v. *Allen,*[16] approved a Minnesota law that permits taxpayers to deduct from their state income tax expenses for tuition, textbooks, and transportation. The deduction is neutrally available to every family with children of school age but is especially beneficial for parents who send their children to private schools.
- In *Aguilar* v. *Felton* (1985),[17] the Supreme Court held that the practice of nonpublic schools being used part time as public schools and receiving state aid was unconstitutional because nonpublic schools in that situation are "pervasively sectarian" (changed by *Agostini* in June 1997.)[18]
- In May 1991, the U.S. Eighth Circuit Court of Appeals unanimously overturned a lower court decision in a Missouri case (*Pulido* v. *Cavazo*) which held that the U.S. Department of Education allocation of Chapter I funds that provided "off the top" money to provide leased mobile vans or portable classrooms for pupils in religious schools was unconstitutional. In a split vote, the panel also overturned the lower court's ruling that such vans and portable units could not be placed on the property of a church-affiliated school. The circuit court said that the units would be viewed as "religiously neutral" under proper circumstances.[19]

The proponents of plans to allocate state monies to nonpublic schools, especially in New York and Pennsylvania, have made numerous attempts to enact laws in harmony with the types of such aid the Supreme Court had agreed on in previous years. At the same time, they have endeavored, with little success, to answer the Court's objections in previous cases. For example, after the *Lemon* v. *Kurtzman* decision in 1971, the advocates of aid to parochial schools tried to enact legislation that met three criteria established by that court for determining whether or not a law meets the establishment clause requirements: (1) the statute must have a secular legislative purpose, (2) its principal or primary effect must be one that neither advances nor inhibits religion, and (3) it must not foster excessive government entanglement with religion. These are the three prongs of the *Lemon* test.[20]

In June 1973, in *Sloan* v. *Lemon,*[21] the U.S. Supreme Court held that Pennsylvania's Parent Reimbursement Act for Nonpublic Education was unconstitutional. The act provided funds to reimburse parents for some of the tuition expenses they paid to send their children to nonpublic schools. On the same day, the Court held unconstitutional a New York statute that provided funds for nonpublic schools serving low-income families. The funds were to be spent for the maintenance and repair of buildings, for tuition grants, and for certain tax benefits for low-income parents of students attending nonpublic schools.

The major arguments presented against the Pennsylvania and New York laws were:

1. Providing state funds for nonpublic schools violates the First Amendment to the Constitution.
2. Such allocation of funds could have a serious effect on the capability of the public schools to discharge their responsibility.
3. Such funding would divert money from public education to private education.
4. This funding would tend to renew the conflict over church-state relations.
5. Such funding would increase the number of students in nonpublic schools and change the mix of students in public schools.

In reviewing *Sloan* v. *Lemon* (Pennsylvania) and *Committee for Public Education and Religious Liberty* v. *Nyquist* (New York),[22] the Supreme Court, by margins of 8 to 1 and 6 to 3, respectively, rejected both statutes, stating that the "maintenance and repair provisions violate the Establishment Clause because their effect, inevitably, is to subsidize and advance the religious mission of sectarian schools." It held that the tuition reimbursement parts of both statutes fail the "effect" test for the same reason as those governing the maintenance and repair grants. The court ruled that the tax benefit to parents of nonpublic school children did not fit the pattern of property tax exemptions sustained in *Walz* v. *Tax Commission* (1970).[23] (In the view of the Court, tax exemptions for property used solely for religious purposes tended to reinforce the separation of church and state and to avoid excessive government entanglement with religion.) The controlling factor, in the view of the Court, was that although both statutes would aid all nonpublic schools, 90 percent of the students affected were attending schools controlled by religious organizations. Thus, the statutes had the practical effect of advancing religion.

Another significant case dealing with the church-state issue made its way to the U.S. Supreme Court. The *Joel Village School District et al.* v. *Louis Grumet and*

Albert W. Hawk suit dealt with a school district that was established by the New York State Legislature in a special act in 1989. The Monroe-Woodbury Central School District and the Satmar religious community within the district were enmeshed in several disputes over ways to accommodate some of the religious traditions that were in conflict with district policies and procedures. In 1986, the Second Circuit U.S. Court of Appeals determined that the New York City Board of Education's arrangement with the Satmar community to educate its children in a walled-off, segregated section of a public school in the Williamsburg section of New York City was an unconstitutional accommodation of religion.

In 1987, the Monroe-Woodbury school district attempted to meet the requests of the Satmar community by assigning only male bus drivers to service public school bus routes assigned to transport male Satmar students to private schools in the Village of Kiryas Joel. The federal district court ruled that the school district had violated the Establishment Clause of the U.S. Constitution. After the legislative action in 1989, the New York State School Boards Association filed suit. Louis Grumet, executive director indicated:

> We believe the state statute establishing a public school district in an exclusively Satmar community, the Village of Kiryas Joel, violates the First Amendment's Establishment Clause. What the statute provides is almost without precedent in the history of the United States: It confers on an exclusively religious community the extraordinary governmental benefits of a separate public school district system serving the village. Public tax dollars are being spent to support this clear violation of the Establishment Clause.[24]

In June 1994, the Supreme Court agreed with Grumet when they affirmed the Second Circuit's opinion that the arrangement with the Satmar community was an "unconstitutional accommodation of religion."[25] The New York Court of Appeals visited the issue again in *Grumet* v. *Cuomo*. A ruling in May 1997 stated that the new legislation also violated the establishment clause of the U.S. Constitution.[26]

In *Aguilar* v. *Felton* (1985), the point at issue was that nonpublic schools were being used (and reimbursed by the state) as "part-time public schools." These religious schools identified themselves as public during the time they were teaching secular subjects. The Supreme Court held that the procedure was unconstitutional, stating:

> Schools in this case are thus "pervasively sectarian," [and] the challenged public school programs operating in the religious schools may impermissibly advance religion in three different ways. First, the teachers participating in the programs may unintentionally or inadvertently inculcate particular religious tenets or beliefs into the curriculum. Second, the programs may provide a crucial symbolic link between government and the school indicating a support of the religious denomination operating the school. Third, the programs may have the effect of directly promoting religion by impermissibly providing a subsidy to the primary religious mission of the institutions affected.[27]

As a result of the ruling, many districts in the country, including New York City, leased or purchased mobile classrooms (vans or trailers) that traveled to parochial schools to provide the mandated services to qualifying Title I students. Congress appropriated some capital expense money for compliance with *Aguilar* v. *Felton* and the U.S. Department of Education required that if the allocated funds were insufficient, money would need to come "off the top" of their entire Title I allocation.[28]

The issue was readdressed in *Agostini* v. *Felton,* which was presented to the U.S. Supreme Court in April 1997.[29] The appeal was based on the premise that the previous ruling had cost taxpayers millions of dollars and that a new look at the entanglement question should be evaluated. A brief filed on behalf of the U.S. Department of Education noted, "*Aguilar* has led to considerable cost to education and the public but has yielded little constitutional benefit, in the sense of preventing any real entanglement between governmental and religious institutions."[30]

The court reviewed the case, and in June 1997, in a 5–4 vote, overturned the 1985 decision. *Agostini* altered the thinking of the *Lemon* test and changed the requirements in the *Aguilar* decision. Justice Sandra Day O'Connor, writing for the majority, stated:

> New York City's Title I program does not run afoul of any of three primary criteria we currently use to evaluate whether government aid has the effect of advancing religion. It does not result in government indoctrination, define its recipients by referent to religion, create an excessive entanglement between government and religion. We therefore hold that a federally funded program providing supplemental, remedial instruction to disadvantaged children on a neutral basis is not invalid.[31]

The United States Supreme Court upheld the *Agostini* doctrine in June 2000, when they ruled in the Louisiana *Mitchell* v. *Helms* case.[32] Three issues were considered: (1) the on-site delivery of special education for children in religiously affiliated nonpublic schools, (2) the constitutionality of providing the use of equipment owned by the school district but used by nonpublic parochial schools, and (3) the legality of providing transportation to students who attended religiously affiliated private schools. The third issue was deemed constitutional by the District Court and the Fifth Circuit and was not part of the appeal in *Mitchell* v. *Helms.*[33] Those courts' decisions and the omission in the appeal confirmed other rulings that have upheld the child benefit theory in issues dealing with transporting students to private/parochial schools. In a 6–3 decision, the Court upheld the *Agostini* tenets by concluding that the law "neither results in religious indoctrination by the government nor defines its recipients by reference to religion."[34]

Educational Choice

Today, the topic in education receiving considerable exposure in the literature—an issue needing to be addressed for various reasons, including the great implications on finance—is school choice. The subject has been greatly debated at the national level and governors throughout the country have endorsed the concept as a way to restructure education.

Choice is not a new issue. Since the founding of the United States, it has often been discussed whether the public or the private sector should be charged with the major responsibility of providing education. The negative claims against the public schools have included their alleged discrimination against the gifted and the disabled, their presumed failure to teach students fundamental skills, and their reputation for fostering inequality among the races and between the sexes. These and numerous other charges have resulted in various proposals for radical changes in the organization and administration of schools. Some of these proposals purport to be panaceas; others are proposed as partial solutions to the many problems that education critics claim are not solvable under the present public school systems of the 50 states. "School choice initiatives are based on the premise that allowing parents to choose what schools their children attend is not only the fair thing to do, but also an important strategy for improving public education. Instead of a one-size-fits-all mode, choice programs offer parents various alternatives from which to pick the educational settings they believe will work best for their children."[35]

Public schools offer some choices for students, including open enrollment, magnet schools, cooperation with home schools, postsecondary concurrent programs, schools within a school, alternative schools in and out of the district, high school graduation incentives, charter schools, and area learning centers. However, parents are looking for more freedom in selection outside the public schools. The areas of choice that are most prevalent in the country center on vouchers, tax credits, and charter schools.

> Not everyone who supports one form of school choice supports all approaches. The most controversial form of choice is tuition vouchers that allow students to attend private schools at public expense. Many supporters of charter schools, magnet schools, and other options within the public system staunchly oppose vouchers. They argue that such aid is unconstitutional if it goes to religious schools, and that the money would be better spent on public schools. Proponents of vouchers argue that true choice includes private schools.[36]

John Coons and Stephen Sugarman of the University of California at Berkeley Law School have been champions of the choice movement for nearly 30 years. Their basic principles for choice are:

1. Any system of choice must aim to reduce the class and racial segregation characteristic of the present order.
2. In order to assure equality of access to all participating public and private schools, choice must tilt toward the poor.
3. School systems must guarantee transportation for reasonable distances to those who cannot afford to pay for it themselves.
4. The choice system must make special efforts to direct information to families unaccustomed to choosing schools for their children.
5. Government-operated schools must be able, if they wish, to free themselves from regulations not imposed on private schools.
6. The plan should not encumber private schools with new regulations governing hiring, curriculum, or choice of facilities.
7. The value of the scholarships should suffice to stimulate new providers.[37]

Education Vouchers

A frequently proposed solution to the choice issue is that of providing a voucher to be spent at the school selected by the parents and student. Numerous versions of this approach have been suggested through the years. In 1962, Milton Friedman espoused its use in his *Capitalism and Freedom.* Reduced to its simplest form, his plan recommended: (1) the determination of a minimum level of education by each state, (2) the issuance of vouchers that parents could use in approved schools to purchase the education obtainable in that school, and (3) the payment by parents of the additional amount of money required by a particular school over and above the amount of the voucher.

It is claimed that such an arrangement would allow parents a choice among the educational programs available to their children by paying the amount required above the cost allowed by the voucher. The schools could be of any type—private, parochial, or public—provided they met the established state standards. McCarthy described the basic voucher system as "one where parents can use state-funded vouchers of a designated amount to pay for their children to attend a public or private school of their choice. Plans vary as to the amount of government regulation involved and whether participating private schools can charge more for tuition than the basic voucher amount."[38]

Advantages and Disadvantages. It is relatively easy to see limitations and possible defects in this organizational system. It seems apparent that the affluent would be able to purchase education at the more expensive and prestigious schools, whereas the less affluent would be forced to purchase education for their children at less expensive institutions. Undoubtedly, this would accentuate undesirable economic segregation and social class distinction. Although such a program might offer a choice of schools and curricula for students in central cities or in other areas of dense population, the idea of competitive schools in rural areas is not feasible from the point of view of basic economics, considering the limited number of students available.

Some of the advocates of a voucher system argue that it would result in greater decentralization of schools. This, they say, is highly desirable, since it would bring the schools closer to the people whose children attend them. However, chaos could potentially develop if each school were allowed to set its own standards or values, to determine the subjects to be taught, and to establish its own costs of attendance.

Advocates say that such a plan would give parents a wider choice of education for their children and that the schools would be better as a result of the natural competition that would arise. They point to the fact that the public schools now maintain a natural monopoly and are very slow to react to public pressure and criticism, but that private schools that are dependent on favorable public opinion react quickly to the desires and needs of their students. The legal implications that make the issue the most controversial focuses on the state-supported voucher programs that include parochial schools. The basic question is whether the participation of schools with religious ties violate the establishment clause of the First Amendment of the Constitution. This is a large issue, as nearly 80 percent of the private schools are religious in nature.

Public attitudes have changed regarding the voucher issue. In 1993, the Phi Delta Kappa/Gallup Poll reported that 24 percent of respondents were in favor of students and parents choosing a private school to attend at public expense, reaching a high of 44 percent in 1998 and 1999. The 2000 poll dropped to 39 percent in favor, suggesting that "support for the use of public funds to pay for students to attend private schools may have peaked and has begun to trend downward."[39] Note the following figures:*

Do you favor or oppose allowing students and parents to choose a private school to attend at public expense?

	National Totals						
	'00 %	'99 %	'98 %	'97 %	'96 %	'95 %	'93 %
Favor	39	41	44	44	36	33	24
Oppose	56	55	50	52	61	65	74
Don't know	5	4	6	4	3	2	2

Voucher Experiments. Until recently, the voucher system received little exposure and limited actual experience. One of the few experiments of note was by the Alum Rock Union School District in California, on a pilot basis from 1972 to 1975. Friedman and Friedman (1980) declared it to be a success, but they agreed that it was hardly a proper test, as it was limited to only a few public schools. Doyle described the project as so radical that Alum Rock was the only district in the nation that was willing to accept federal funds to serve as a demonstration site. The limited scope of the project made it difficult to assess vouchers, especially because of the intense anxiety and extensive publicity surrounding it.[40]

The Milwaukee Parental Choice Plan, established in 1990, allowed 1,000 public school students the opportunity of attending nonsectarian private schools at state expense. The measure was specifically aimed at low-income students who were currently enrolled or who had dropped out of school. The Milwaukee plan was expanded in 1995. It included additional funds in a budget bill to include parochial schools and it increased to 15,000 a year the number of low-income students that could participate. In January 1997, a circuit court ruled that the inclusion of religious schools in the voucher program violated the state constitution, indicating that "millions of dollars would be directed to religious institutions that are pervasively sectarian with a clear mission to indoctrinate Wisconsin students with their religious beliefs."[41] The ruling also struck down the expansion of the program to include more students on the basis that utilizing the *budget measure* as the method of increasing the number of students violated the state constitution. The Wisconsin Supreme Court reversed the lower court's decision and upheld the inclusion of parochial schools in the publicly funded voucher program, finding no impairment of the establishment clause or the Wisconsin Constitution. In 1998, the U.S. Supreme Court declined to review the case.[42]

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*From Phi Delta Kappa/Gallup Poll, *Phi Delta Kappan*, September 2000. Reprinted by permission.

In Ohio, a voucher program for students in kindergarten through third grade for low-income families was instigated in the 1996–97 school year. One provision of the program authorized tutoring scholarships (vouchers) of $500 for public school students and up to $2,500 for low-income students to attend private schools, including religious institutions. In 1997, an Ohio appellate court ruled against the program, as nearly 80 percent of the 1,900 students used their vouchers in parochial schools. The court affirmed that the program violated the state constitution and also the establishment clause of the U.S. Constitution. The Ohio Supreme court "rejected the lower court's conclusion that the program provides direct and substantial government aid to sectarian schools in violation of the establishment clause. The court declared that, even though most beneficiaries of the program attend sectarian schools this alone does not make the voucher program unconstitutional if the scholarships are allocated on the basis of religiously neutral criteria."[43] Later, a law was passed reinstating the Cleveland voucher program, which caused the plaintiffs to file a *federal* suit. The *federal* district court enjoined implementation of the program, but almost immediately lifted the injunction. In March 2001, the Sixth Circuit Court of Appeals denied a rehearing of the case, ending the program.[44] Further action is expected.

Maine and Vermont had lawsuits challenging voucher programs that had been in place for a period of time. The Maine Supreme Court rejected challenges under the establishment and protection clauses of the federal Constitution. The Vermont Supreme Court struck down a school district's policy allowing tuition payment for children to attend sectarian high schools, noting that the practice violated the state constitution, which prohibits citizens to support religious worship. The U.S. Supreme Court declined to hear the case in 1999.[45]

Florida adopted a statewide voucher plan in 1999 that allowed public funds to flow to private schools. Students attending schools that are rated as deficient (based on test scores, attendance, graduation rates, and other factors) are entitled to government vouchers that can be used in qualified public or private schools of their choice.[46] Plantiffs challenged the constitutionality of the Florida program. In March 2000, a circuit court judge ruled that the voucher program violated provisions in the Florida Constitution, which states that students must be provided a "uniform…high quality system of free public schools."[47] Appeals are pending.

In November 2000, two states had voucher initiatives on the ballot for voter consideration. In California, Proposition 38 was defeated by a 70.5 percent *no* vote to 29.5 percent *yes* vote. The Michigan Constitution change (Article VIII, Section 10) to allow vouchers in that state was defeated by a similar margin—69.1 percent against and 30.9 for the proposal. "No topic is generating more volatile debate in legislative, judicial and educational forum than voucher systems to fund schooling. Discussions elicit strong emotions, positions are entrenched, and few people are objective about or neutral toward this issue."[48]

Tax Credits

Options open to proponents of aid to nonpublic schools include various tax credit plans. Such arrangements would indirectly divert some public funds to the support of nonpublic schools. Through the years, some federal attempts have been made for such action. A Tuition Tax Credit Act was initiated in 1977. It proposed that parents who paid tuition for children in nonpublic schools should be given a tax credit. Its sponsors argued that the public had a responsibility to support the bill, as it would assist public schools financially by keeping children in nonpublic schools where enrollments were decreasing at the same time. Those opposed to the measure felt that it violated the Establishment Clause of the First Amendment, benefited the rich and middle classes, and was only slightly less objectionable than the controversial voucher system. The proposed act was defeated in 1978.

Other attempts to promote tuition tax credits came directly from the president's office in 1982 but received little support with no action from Congress. The tuition tax credit issue was part of the political platform of the Republican Party in 1988. However, it was denounced by President George Bush in 1989. He stated, "We can't afford to do that.... So I think that everybody should support the public school system." At this time, one proponent stated, "It's an idea whose time has come and passed, or not come at all."[49] Those with more optimism predict it will emerge again and eventually garner enough support to provide tax credits at the federal level.

Some states have ventured into tax relief programs that provide tax credits for education related activities. Minnesota, in a special legislative session, passed such a measure that became effective in the 1998 tax year. The legislation amended previous benefits and added tax credit for purchase of educational services of various types.

In Arizona, the legislature enacted a law that became effective in 1998 that allowed tax credits for those making contributions to a "school tuition organization." The new law allowed funds to flow to private schools, including religious institutions. Taxpayers could generate up to $500 state income tax credit for voluntary contributions made to school tuition organizations that in turn provide scholarships for elementary and secondary students. Up to $200 tax credit was allowed against the taxes imposed for the amount of any fees paid by a taxpayer for the support of extracurricular activities of the public schools.[50] In 1999, the Arizona Supreme court indicated that parochial schools were only "incidental beneficiaries" of the tax deduction allowance. The U.S. Supreme Court denied a hearing, allowing the program to continue.[51]

In Illinois, legislation was passed to award families state income-tax credits to help pay costs of private schools. It allows for $500 per family toward private school costs, including tuition, books, fees, and other expenditures. A lawsuit filed by several families and supported by the Illinois Education Association challenged the law as unconstitutional. A U.S. District Judge ruled (April 2000) that the tax credits were constitutional if they are offered to parents of public school students as well. The ruling has been appealed.[52]

Charter Schools

The choice movement, including voucher programs and tax credit proposals, have made slow gains; therefore, other alternatives have surfaced that have a familiar ring. One such approach is that of providing state and federal education funds for charter schools. Proponents for school choice have been excited about the expansion of options with charter schools. The concept has been hailed by entrepreneurs as a real breakthrough for free enterprise, because it allows, in some states, private businesses to compete for the billions of dollars that go into education budgets throughout the country. (See Local Control by Contract in Chapter 6.)

Defining *charter schools* is challenging, because the state requirements for charter holders differ markedly. This dilemma holds true today, as descriptions make it difficult to narrow down categories for the various approaches. Thus, this early description by Harrington-Lueker has not changed much in the past decade:

> Laws vary so much from state to state that no single definition of a charter school applies. In general, though, charter schools are nonsectarian public schools that cannot discriminate on the basis of ethnicity, race, or disability. Charter schools generally set out specific results they will achieve—a certain attendance level, for example, or a certain percentage of improvement on standardized tests. If these outcomes aren't met, whoever granted the charter can revoke it.[53]

At the recommendation of Congress, the U.S. Department of Education sponsored a National Study of Charter Schools. The report substantiated the difficulty in defining charter schools because of the wide variances of state laws. "Defining what is or is not a charter school is complex.… There exists no consensus definition of "charter schools" or "charter school legislation."[54]

Education Week simplifies the definition in this way: "Charter schools are…publicly financed but largely independent schools. They generally are created around a specific teaching philosophy, subject area, or other special emphasis and attract students throughout a district who want an alternative to the regular public schools."[55] Federal Public Law 103-382 suggests the following features for charter schools:

- Charter schools are public schools that are exempted from significant state or local rules that inhibit the flexible operation and management of public schools.
- Charter schools are created by developers as public schools or adapted from existing public schools, and are operated under public supervision and direction.
- Charter schools operate in pursuit of a specific set of educational objectives determined by the schools' developers and agreed to by the authorized public chartering agency.
- Charter schools provide a program of elementary or secondary education or both.
- Charter schools are nonsectarian in their programs, admissions policy, employment practices, and all other operations and are not affiliated with a sectarian school or a religious institution.
- Charter schools do not charge tuition.
- Charter schools comply with federal civil rights legislation.
- Charter schools admit students based on a lottery if more students apply for admission than can be accommodated.
- Charter schools agree to comply with the same federal and state audit requirements as do other elementary and secondary school in the state unless the requirements are specifically waived.

- Charter schools meet all the applicable federal, state, and local heath and safety requirements.
- Charter schools operate in accordance with state law.[56]

The charter school movement has grown significantly since the first one was established in Minnesota in 1992–93. *A National Study of Charter Schools* (March 2000) shows that a total of 36 states have passed legislation allowing charter schools to be established, with over 1,700 schools operating under a charter contract. This is an increase of over 1,000 schools in a three-year period serving over 250,000 students.

Implications for the effect that charter schools may have on financing education are many. The U.S. Department of Education provides about $35,000 in start-up funds for schools that qualify, but would like to give up to $100,000.[57] The fiscal 2001 request was for an increase of $175 million, 3.2 times the amount requested four years earlier. Department of Education officials project that by the year 2007, there will be some 3,000 charter schools in 40 states.[58]

Generally, at the state level, the charter recipients are awarded the same per-pupil revenue provided local school districts. Arizona has added state capital facilities aid for charter schools[59] and the school district in Anchorage, Alaska, approved a charter school for home-schoolers,[60] a concept that was struck down by the courts in Michigan. The issue takes the private school finance question to an extended dimension: Should students who are home-schooled be eligible for the per-pupil state revenue provided to public schools? The arguments are strong for such support if the state has the responsibility to provide funding for the education of each student in the state, irrespective of the delivery system. The impact and strain on education dollars could be staggering.

Controversy Not Solved

The relation of church and state and now the broader issue of choice have serious implications for school finance, some of which become more apparent each year. For example, the constantly increasing costs of education for nonpublic schools have caused the sponsoring agencies to take a serious look at the operation of such institutions. There is some merit to their argument that some governmental financial assistance may be required to keep their operation solvent so that they can continue to supplement and abet the educational programs of the public schools. Their contention is that nonpublic school bankruptcy would bring hundreds of thousands of abandoned students back into the public education system, at a very high cost.

Despite the obvious fact that nonpublic school failures will result in higher costs of public education, most citizens prefer to view the church-state issue on the basis of principle rather than economics. Either approach to the problem has its limitations, its defenders, and its critics. Consequently, litigation in this area of financing education is becoming more common and controversial than ever before in history.

Unfortunately, even though many courts have ruled on the problem, there is no clearly determined answer to whether statutes adopted in some of the states are contraventions of the First and Fourteenth Amendments. The controversy over the church-state conflict and the implications of sharing public revenue with private schools pose many questions for both private and public school administrators. The future is difficult to predict, but one thing is certain: The courts and legislators will be challenged with this issue again and again.

Summary

The principle of separation of church and state is lauded in this country, but it has caused a dilemma of some importance in the field of education. Direct government financial support for private and parochial schools has continually been repudiated by the courts. Proponents of financial aid to nonpublic schools argue that parents should have a choice in the type of school their children attend, that nonpublic schools cannot function properly without financial support, and that the elimination of such schools would cause economic stress on public schools.

Opponents argue that parochial aid represents a big step backwards in educational philosophy, that the practice would violate the Establishment Clause of the First Amendment to the U.S. Constitution, and that the problem should be solved on the basis of principle rather than its economic effect. The principle of separation has generally been observed, but interpretation of it has sometimes changed. The courts have sometimes supported a child-benefit theory and some forms of tax credit payments for elementary and secondary school students, if such action passed the *Lemon* test.

The topic of *choice* is receiving much exposure in the literature, noted by some to be the hottest education issue of the present decade. A frequently proposed solution to the choice issue is that of providing a voucher to parents to be spent at the school they wish their child to attend. Tax credits are another option that expands the possibilities for choice and at the same time proposes a way to divert federal and state public funds to nonpublic schools. In addition, charter schools as an option for choice are expanding rapidly throughout the United States.

The church-state controversy has had and will continue to have an important effect on state school finance systems. Nonpublic schools, like public schools, are being adversely affected by continually rising costs, which sometimes force nonpublic schools to discontinue their services. This, of course, places a greater financial burden on the public schools.

The issue of financial support to nonpublic schools remains unresolved. The debate over its merits and drawbacks goes on unabated.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *Lemon test, Weisman perception, Goluba perspective, child benefit theory, First Amendment, Tenth Amendment, Aguilar-Agostini-Weir logic, choice tuition tax credits, vouchers, charter schools, establishment clause, free exercise clause.*
2. Trace the history of the church-state controversy in education in your own state since the adoption of the U.S. Constitution.

3. Review three important court decisions that have had an effect on public financing of church schools.
4. Summarize the arguments in favor and those opposed to the granting of public funds for the support of nonpublic schools.
5. Some states have made greater efforts than others to provide public funds for nonpublic schools. Trace the history of a particular state in its efforts to come to a satisfactory solution to this problem.
6. The "choice" issue has implications for diverting public funds to nonpublic schools. Prepare a paper that discusses the pros and cons of this point of view.
7. Prepare a paper indicating your position on the question of using public funds to help support nonpublic schools.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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ENDNOTES

1. *Pierce* v. *Society of Sisters,* 268 U.S. 510, 45 S. Ct. 571 (1925).
2. *Aguilar* v. *Felton,* 105 S. Ct. 3232 (1985).
3. *Lemon* v. *Kurtzman,* 403 U.S. 602, 91 S. Ct. 2105 (1971), *rehearing denied.*
4. *Lee* v. *Weisman,* 505 U.S. 577 (1992).
5. *Jones* v. *Clear Creek Independent School District,* Federal Reporter, 2d Series, Vol. 977, pp. 963–972.
6. *Nikki M. Goluba, Plaintiff-Appellant* v. *The School District of Ripon, a municipal corporation; and Roland Alger, Defendants-Appellees.* 1995 WL 8235 (7th Cir. (Wis.)).
7. *Lee* v. *Weisman.*
8. *Jones* v. *Clear Creek Independent School District.*
9. Mark Walsh, "Court Opens Term with Several Major School Cases on Docket," *Education Week,* October 2, 1991, p. 25.
10. *Cochran* v. *Louisiana State Board of Education,* 281 U.S. 370, 50 S. Ct. 335 (1930).
11. *Everson* v. *Board of Education,* 330 U.S. 1, 67 S. Ct. 504 (1947), *rehearing denied.*
12. National Education Association, *Research Bulletin 45,* No. 2 (May 1967), p. 44.
13. *Education U.S. A.* (Washington, DC: National School Public Relations Association, Dec. 8, 1969), p. 86.
14. *Tilton* v. *Richardson,* 403 U.S. 672, 91 S. Ct. 2091 (1971); *Lemon* v. *Kurtzman,* and *DiCenso* v. *Robinson,* 403 U.S. 602, 91 S. Ct. 2105 (1971), *rehearing denied.*
15. The Supreme Court previously addressed this question in *Walz* v. *Tax Commission* (397 U.S.664, 90 S. Ct. 1409) and upheld by an 8 to 1 vote a constitutional and statutory provision in New York exempting church property from taxation.
16. *Mueller* v. *Allen,* 463 U.S. 388, 103 S. Ct. 3062 (1983).
17. *Aguilar* v. *Felton.*
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CHAPTER 11

Financing School Facilities

Too many of America's schools are crumbling, crowded and obsolete. It's a national problem requiring a national solution.

—National Education Association, 2000

Capital outlay along with debt services, transportation, federal programs, school lunch, special education, and categorical programs are large budgets that school officials under the direction of the board of education administer. These funds are in addition to the maintenance and operation (M&O) budget, which receives the greatest attention from the majority of educators, since revenues are utilized for salaries (75 to 80 percent), textbooks, and supplies, and, to a large extent, control the teacher-pupil ratio (classroom size).

Capital funds are generally used for fixed assets, equipment, construction projects, and purchase of property. At one time, in many states, debt services were included as part of capital outlay. Presently, it is a separate budget category. It includes expenditures for principal and interest on bonds, leases, and long-term financial obligations.

For many years, revenues for capital projects were generated solely by local property taxes. The uncomplicated and formerly satisfactory system of financing public school capital outlays in this manner is obsolete and impractical for present-day use. Historically, most school districts were able to finance their own capital-outlay expenditures without assistance. Their school building problems had not yet reached the magnitude they have attained in recent years. There were many reasons for this:

1. A smaller percentage of the school-aged population attended school.
2. Building costs were much lower for a number of reasons: buildings were much less pretentious, labor costs were much lower, and fewer special areas and less expensive equipment were required.
3. There was no accumulation of need for buildings.
4. Since extensive changes and innovations were minimal, relatively few facilities or buildings were discarded because of obsolescence.

As the need for state involvement increased in the early years of the twentieth century, a few states made a feeble start toward helping finance school district capital outlays. About half a dozen southern states provided emergency funds to the hardship districts least capable of providing school buildings with local tax funds alone.

Since the problems of financing public school facilities are much the same as those of financing current expenditures, it would seem that reforms and improvements in one would bring similar improvements in the other. Such had not been the case, however, as the movement toward equalizing capital outlay has been slow. Walter G. Hack noted the similarities and differences in these two related problems of financing education in the post-*Serrano* reform period:

> Both types (financing current expenditures and financing facilities) have apparently felt the effects of the economic slowdown,...inflation, and the wrath of the taxpayers' revenge. There is one major difference, however, significantly more recent attention has been given to problems related to financing the current expense programs. This attention is certainly legitimate and logical, given the proportion of school dollars expended between the two programs. It appears now, however, that attention could and should be at least shared with needs to finance capital outlay expenditures.
>
> Thus far...the *Serrano* and *Rodriguez* cases have occupied center stage in the educational finance theater. As a consequence of, and sequel to, the original cases, many states have mounted studies and enacted legislation to provide more equity in educational programs and financing. In much of the reform legislation which has been enacted, little or no modification has been made in the system to finance capital outlay.[1]

Complete Local Support

One of the strong traditions that began to develop early in school finance history was that capital-outlay costs were of local concern only, in spite of strong and almost universal acceptance of state responsibility for education. The soundness of such a position is open to serious debate, but the general acceptance of this local responsibility, and the almost complete indifference on the part of state governments, is a matter of open record. In spite of recommendations for state participation in capital outlays by such finance planners as Updegraff and Mort, the main concern of most authorities in the Strayer-Haig era of influence was with state support of current operational costs only. This may have been because current expenditures included about 85 percent of the total school budget, with only 15 percent being spent for capital outlay.

Complete local support for financing capital outlays was an appropriate and practical method of collecting the money to build and equip new school buildings for many years. The rationale for such a method of collecting capital outlay and debt service funds has virtually disappeared in the face of fairer methods of financing education. Some of the changes in school finance philosophy include the following:

1. Since responsibility for education is legally a state function, responsibility for its financing rests firmly with each state.

2. There is difficulty in equitably incorporating the varied capital-outlay debt of the many districts within a state.
3. There is little justification for financing capital outlays on a different basis from current expenditures. If state financing of current operations is fair, so is state financing of capital outlays.
4. There is no defense for the traditional method of financing school facilities by relying on local property tax when more tax resources are available at the state level.
5. It is false economy to indebt school districts for long periods of time, with excessive interest costs.
6. It is paradoxical to provide adequate funds for current expenditures for all districts and then deny some of them good educational programs because low assessed valuations and state-imposed limitations on debt service maximums limit their fiscal ability to provide satisfactory facilities.
7. Just as no district, regardless of its wealth, should enjoy pecuniary advantages over another in obtaining current operation funds, neither should any district enjoy resource advantages over another in providing school facilities.

Complete local responsibility for financing the current expenditures of school districts was eliminated in most states in the early part of the twentieth century, with the advent of state grants of various kinds to local districts. But financing the construction of school buildings has not yet made such progress; such financing is still largely a local responsibility in most of the states.

Factors Restricting Local Responsibility

A big factor working against local responsibility for building school facilities has been the low assessed valuations in thousands of small school districts. Regardless of the statutes and the willingness of people to tax themselves, bonding small districts to build school buildings was often mathematically impossible. In some school districts, for example, the cost of a new building might well exceed the assessed valuation of the entire district, whereas in other districts in the same state, a small tax levy would be adequate to build needed buildings on a pay-as-you-go basis. Such inequity undermines the concept of providing equality of educational opportunity for all children within a state.

Another argument against complete local responsibility for construction of school buildings is that such costs would then be paid almost entirely by payers of property tax. Some people would then escape paying their share of these capital-outlay costs. The property tax may once have been a reasonably fair measure of taxpaying ability, but it is not so today. *Using property tax payments exclusively for capital outlays repudiates our long-held belief in taxing people in terms of their ability to pay for education.* Only state participation in such costs can provide parity for this inequity. Such relief should be provided on an equalization basis. This would bring some relief to payers of property taxes and would broaden the tax base to include revenues from many different kinds of taxes, an absolute necessity in any tax system.

State Capital-Outlay Financing

States did little to help in financing local public school capital outlays until the second quarter of the twentieth century, as Thompson pointed out: "State involvement in assisting local communities with facilities funding provides a checkered history. At various times the effort has been enthusiastic, but at other times denial of responsibility has been evident. In general, there has been less than enthusiastic support among the states for the concept of state participation in school building costs."[2]

Early State Capital-Outlay Programs

Since an initial action of Delaware in 1927 that provided for significant state support for local district debt-service costs in the foundation program, most of the 50 states have made some progress in this aspect of school finance.

> State participation in financing local facilities ranges from Delaware's major support to California's billion dollar loan plan, from the Pennsylvania State School Building Authority to Indiana's and Kentucky's "do it yourself" holding companies—originated in the 1920's from Florida's, Washington's, and New York's scientifically conceived state grant programs to South Dakota's purchase of local bonds and Oregon's support of construction of junior colleges only.[3]

During its existence, the United States Office of Education did much to stimulate the states to provide plans for helping local districts to finance capital outlays. In 1951, it proposed that each state should include capital-outlay financing in its foundation program for current and long-range building programs. State departments of education were to establish specific programs and help administer them. Current funds were to be used and reserves were to be established when practicable. By 1965, about 80 percent of the states had used some method of assisting local districts in financing capital outlays and debt service. Legislative grants and appropriations—including, for example, a part of the foundation program, state loans, state guarantees of local indebtedness, and state purchases of local district bonds—are the most important devices used by the states to help local districts finance capital outlays.

Current Programs

The current situation on state financing of local district capital outlays is characterized by the following points:

1. Emergency state grants often precede regular appropriations or provision for capital-outlay funds in a state's foundation program. Relatively few districts share in the use of such emergency funds. The success of these plans is largely a function of the objectivity of the guidelines and standards required for participation. Over time, these emergency programs very often develop into more or less permanent patterns for such diversion of funds for school construction.

2. Only a few states include capital outlays as a part of the foundation program. Flat grants, incentive funds (such as matching funds or reorganization grants), emergency grants-in-aid, special grants to financially feeble districts, repayable loans, building authorities, and equalized foundation grants are the main ways used to allocate state funds to local districts for financing capital outlays.

3. There is little similarity among the methods used by the states for providing capital outlays and debt-service funds to school districts; state appropriations and state loans are probably the two most used methods. Although flat grants and incentive grants help all districts, they are not equalized and therefore tend to be limited in scope and in their effect on solving the capital-outlay problem. Some of these grants have been utilized to encourage school district reorganization and attendance area consolidation. Matching grants used by some states have given greater aid to wealthy than to poor districts; on that basis, they are not satisfactory.

4. Many states use more than one main program or device in getting state school money converted into local buildings; some allow local districts to accumulate funds for future building needs.

5. The state usually supervises rather carefully the expenditure of state monies for local school building construction, as it does with other state funds. The state often provides such supervision even when no state funds are directly involved in local school construction. This often involves required state approval of plans for new construction, observance of state-established building standards, and the services of state school-building consultants in the planning of local schools.

6. Some degree of increased control and supervision of local districts seems to accompany the provision of state funds to help pay local school building costs. Local school boards and citizens sometimes interpret the provisions some states attach as guidelines and standards for school construction as usurpation of some of the authority commonly vested in the local school board.

7. Some states have adopted a policy of making loans to districts for capital-outlay purposes. The conditions of repayment usually include a standard effort for each district. The districts unable to repay the loans with a preestablished degree of tax effort receive the unpaid part of the loan as a state grant. The plan works well but sometimes results in overburdening certain districts with tax effort in order to meet stated requirements for eligibility to use such loans. Such handling of loan grants provides a degree of equalization, for the more wealthy districts would have no chance to default in repaying their loans, but poorer districts would often find it impossible to do otherwise.

8. Building authority plans offer a temporary solution to the problem of obtaining adequate buildings in some school districts. However, many of the financially weaker districts are hard pressed to provide funds for the high cost of such building authority rentals. There seems to be no more reason for the state to subsidize weak district rental costs than to subsidize and liberalize the construction practices involved in building their own buildings in the first place.

The use of school-building authorities is an oblique attack on the problem of providing adequate school buildings. Under this plan, the building company constructs a building and rents it to the school district. The chief virtue of the plan is that it provides facilities for use by financially weak districts that could not bond to build their own because of low assessed valuations and unduly restrictive debt limitations.

School-building authorities, provided for in some of the states, have not proved desirable for all school-building purposes. Adequate planning, construction of school plants with modern educational specifications, and the difficulties involved in fitting changing programs to inflexible facilities are some of the problems that this kind of program generates.

The Federal Government and Capital Outlays

There has been ambivalence at the federal level to assist states and local districts with financial aid for capital-outlay expenditures. The federal government's involvement is relatively insignificant. The prevailing opinion that school-plant construction was exclusively a local problem was not challenged by federal relief until the emergency programs of the Depression years were undertaken. At that time, the Public Works Administration and the Works Progress Administration constructed many school buildings in the 1930s and then released them to local school boards. This gave some evidence that funds for capital outlay might be provided to local districts without concern for federal control.

In 1950, Public Law 815 was passed. It provided federal capital-outlay funds for school districts in areas affected by federal installations and defense projects. It also demonstrated that the federal government was cognizant of the need to provide some funds for local governments who were entitled to revenues *in lieu* of tax dollars.

As part of the reauthorization of the Elementary and Secondary Education Act, the fiscal 1995 federal budget included $100 million for the Education Infrastructure Act (Title XII). The act was designed "to help urban and rural school districts ensure the health and safety of students through the repair, renovation, alteration, and construction of public elementary and secondary school facilities." Though the amount was minuscule, no appropriation was awarded for the program.

In 1995, the General Accounting Office (GAO) provided information to Congress that demonstrated the need for assistance in providing capital outlay revenues to states and districts. In a survey—*School Facilities Condition of America's Schools*—it was shown that the schools were greatly in need of repairs and upgrading. The survey was the first since the one completed by the Department of Education in 1965. The amount was staggering, with $11 billion needed to comply with federal mandates:

> Based on estimates by school officials in a national sample of schools, we project that the nation's schools need about $112 billion to repair or upgrade America's multibillion dollar investment in facilities to good overall condition. Of this, $11 billion (10 percent) is needed over the next 3 years to comply with federal mandates that require schools to make all programs accessible to all students and to remove or correct haz-

ardous substances such as asbestos, lead in water or paint, materials in underground storage tanks (UST), radon, or meet other requirements.[4]

Those seeking assistance from federal sources for capital-outlay funds felt that the evidence from the GAO report would motivate Congress to act. However, budget proposals in both 1995 ($5 billion) and 1999 ($865 million) were rejected. The 2000 budget request was for $5 billion for school construction, including $3.7 billion to assist districts to build or renovate school facilities and $1.3 billion for "emergency renovations."

A breakthrough did come with a relatively unknown program that has some restrictions that may make it difficult for districts to participate. The Qualified Zone Academy Bond (QZAB) program created by Congress in 1997 makes $400 million in zero-interest bonds available to districts each year. It provides money for "creation of academies housed in school building additions." Some creative administrators have made part of the $400 million in the program work for them.[5]

Startling new figures of needs that were circulated to Congress and state legislators came from the National Education Association (NEA). It indicated:

- America's schools are in disrepair. The average public school in America is forty-two years old. Twenty-eight percent of the public schools in America are over fifty years old.
- America's schools are overcrowded. Record enrollments and growing communities are leading to severe overcrowding in our nation's public schools. Putting students in trailers and going to school in shifts is not the answer.
- America's schools can't support today's technology. Forty-six percent of the public schools in America lack the electrical and communication wiring to support today's computer systems.[6]

Released in May 2000, the results more than double the GAO figures. The data were collected by NEA on a state-by-state assessment to determine the unmet school modernization needs, which totaled $321.9 billion for renovation, maintenance, repairs, and technology. The breakdown of costs was $268.2 billion for infrastructure and $53.7 billion for technology. One of the goals of the survey was to "build support in Congress for legislation to modernize America's public schools."[7] The totals for each state are included in Table 11.1.

The National Center for Education Statistics published a document in June 2000 reporting on the "Condition of America's School Facilities" (NCES 2000-032). They noted that in their sample of schools, three-fourths reported needing to spend money on repairs, renovations, and modernization. The total amount of money was estimated to be approximately $127 billion, with the average dollar amount for each school needing to spend money on facilities at about $2.2 million.

State Support

Some states seek solutions by making grants from accumulated surpluses; others provide equalized matching plans; and still others experiment with including capital-outlay

TABLE 11.1 Unmet Funding Needs for School Modernization

State	Funds Needed	State	Funds Needed
Alabama	$2,310,853,117	Nebraska	1,922,603,928
Alaska	868,794,867	Nevada	5,573,977,712
Arizona	5,669,527,982	New Hampshire	620,317,062
Arkansas	2,256,405,911	New Jersey	22,029,345,313
California	32,901,183,414	New Mexico	1,750,185,035
Colorado	4,543,245,163	New York	50,675,796,800
Connecticut	5,555,226,320	North Carolina	7,525,524,823
Delaware	1,166,375,768	North Dakota	545,223,536
Florida	5,487,697,936	Ohio	24,977,840,000
Georgia	8,536,952,027	Oklahoma	2,874,081,833
Hawaii	955,443,168	Oregon	2,986,932,022
Idaho	967,791,137	Pennsylvania	10,408,541,747
Illinois	11,328,098,880	Rhode Island	1,583,941,627
Indiana	3,537,737,613	South Carolina	3,268,063,360
Iowa	3,898,924,833	South Dakota	650,174,846
Kansas	2,296,811,280	Tennessee	3,244,784,824
Kentucky	3,127,235,884	Texas	13,654,055,206
Louisiana	3,941,071,195	Utah	9,003,985,557
Maine	684,775,372	Vermont	333,386,471
Maryland	4,785,427,084	Virginia	6,892,107,208
Massachusetts	9,942,061,620	Washington	6,541,506,697
Michigan	9,924,079,040	West Virginia	1,322,390,064
Minnesota	5,423,822,916	Wisconsin	5,718,119,395
Mississippi	1,580,245,504	Wyoming	634,421,353
Missouri	4,451,022,957		
Montana	1,077,299,591	TOTAL	321,955,416,998

Source: National Education Association, *Modernizing Our Schools: What Will It Cost?* Table 1: Total Funding Need for School Modernization (US$ billions), page 11, National Education Association, 2000. © NEA; used by permission of the NEA.

monies as a fundamental part of their foundation programs. Variety in the solutions to the problem and inadequacy of funds are the chief ingredients of such state-local partnership plans. In recent years, it has become evident that changes will have to be made in the method of financing capital outlays. Many financially weak districts have been unable to meet their own building needs.

The trend toward greater participation for financing facilities at the state level was heightened by the outcome of *Pauley* v. *Bailey* (1984)[8] in West Virginia, which established that adequate facilities are a necessary part of a thorough and efficient education system. West Virginia legislators and education leaders were given the challenge of developing a system of equitable financing for the schools, including capital outlays.

Since facilities ranged from deplorable to exemplary and there was a wide variation of resources among the counties, the state needed to assume a greater role in funding school facilities. The estimate for bringing buildings up to a basic standard was over $800 million. The state proposed a bond election in 1986 for $200 million for building needs, in an attempt to meet the requirements of the court order. However, the voters of West Virginia rejected the bond issue on three occasions.[9] Still determined to meet the court order, lawmakers created the independent School Building Authority, which completed five bond issues and contributed $430 million to the construction and renovation of school facilities in West Virginia. With the inclusion of local funds, the school facilities improvement fund contained $647 million dollars. The fund constructed 56 new schools and renovated 470 other schools.[10]

The New Jersey State Supreme Court in the *Abbott* v. *Burke*[11] case (1990) brought pressure on the legislature to act in equalizing expenditures in capital spending. The administrative law judge noted:

> It is quite obvious on this record that facilities present a statewide problem. Besides the differences in the quality of school facilities between poor urban districts and wealthy districts, our school facilities generally need modernization.... Similarly, I do not believe that widely differing physical plants can be justified on an equal protection basis.... I FIND [judge's emphasis] that a more systematic way of dealing with replacing and renovating outmoded physical plants should be incorporated into the financing system.

The plaintiff, not satisfied with New Jersey's response, revisited the issue in a 1998 lawsuit. The state legislature passed the Educational Facilities Construction and Financing Act in July 2000. The legislation provides $12 billion for new school facilities and needed renovations of present buildings. The source of revenue is from state-issued bonds.

In Arizona, a law passed in 1998 required improvements in schools and shifted the costs of upgrading from the local district to the state. The "existing deficiencies" were considerably higher than original estimates and the governor was seeking funds in her 2001 budget to be used for annual debt service on bonds that would be used to upgrade the schools. She proposed raising the 5 percent sales tax to 5.6 percent. This increase was voted on through a ballot initiative (Proposition 301) and it passed by a significant margin.[12] In response to three lawsuits and a state judge's decision that the formula for distributing capital-outlay funds was unconstitutional, the legislature in New Mexico passed a law in April 2000 providing $60 million per year over a 10-year period for bonds for districts in need of school facilities.[13]

Honeyman stressed the need for both local and state agencies to be involved in solving the capital-outlay problem:

> Deferred maintenance and school construction needs are a serious concern throughout the United States. The problems associated with financing of facilities by school districts place many school districts in potential distress. The problem is crucial to the

> long-term success of many rural and poor school districts that lack an adequate tax base to support the levels of debt needed to resolve the problem. Regardless of the mechanisms that can be used to resolve deferred maintenance and facility needs, local districts and state education agencies must plan to address this growing problem.[14]

Debt Limitations Liberalized

In addition to the many direct methods that the states used to facilitate construction of needed school buildings—grants, loans, creation of building authorities, inclusion of such costs in foundation programs, and others—there were indirect provisions that allowed some local districts to solve their own problems. One of the most important of these indirect provisions was the liberalization of school district debt and tax-levy limitations. Debt limitations, usually expressed as some percentage of the assessed value of taxable property, were changed in one or more of several possible ways. Some states changed the total debt limitation of a school district from a percentage of assessed value to a similar percentage of true value; others increased the limit by a stated dollar amount; and still others provided for additional tax-rate levies.

The matter of relating a school district's debt limits to a specified percentage of the assessed valuation is open to serious question, as Barr and Garvue have indicated:

> Debt limits should not be related to the amount of local assessed evaluation. A more appropriate overall limit for financing capital outlays would be a limit of 25 percent of school revenue allocated to reserve funds, debt service, lease rental, and current construction. Experience has shown that this, or even higher allocation of public school revenues for school building purposes is feasible [and] prudent, and does not adversely affect bond ratings.[15]

Equity in Financing Educational Facilities

The persistent efforts of many states to provide equity of educational opportunity have not been paralleled in the matter of financing capital-outlay expenditures. As a result, most of the inequities that have plagued this area of public school finance in the past still exist. Unfortunately, reform has been virtually off limits to this branch of school finance. However, the courts have shown interest regarding school districts having the ability to provide adequate facilities. Examples from Texas (*Edgewood,* 1986), Missouri (*Jenkins,* 1986), Alaska (*Kenai,* 1987), New Jersey (*Abbott,* 1988), Tennessee (*Small Schools,* 1988), West Virginia (*Pauley,* 1979, 1982, 1988, 1994), New Mexico (*Almagordo* v. *Morgan,* 1995), and Ohio (*DeRolph* v. *State of Ohio,* 2000) are all cases related to facility issues.

Some of the discrepancies and imbalances that continue to exist between financing school programs and financing the physical facilities that house such programs are subtle and are therefore given slight attention by most casual observers of the education scene. The most significant of these include:

1. It is unfair, discriminatory, and certainly unjustified for the state to provide equalization funds for ongoing school programs and at the same time do virtu-

ally nothing to provide proper facilities in which to house those programs. Such oversight or calculated neglect may at best require less wealthy districts to burden their citizens with additional high tax obligations over long periods of time; at worst, these districts may find it impossible to provide minimum or standard facilities, even with maximum local property tax effort.

2. The long-term bonding debts incurred by taxpayers in less wealthy districts are often considerably higher than in wealthier districts because of the more favorable interest rates obtainable on bond issues in the latter.
3. There is a high degree of unfairness to those districts that are required to build and equip several buildings each year, as compared to those that do not face such requirements. Increases in district school population caused by the mobility of people are a problem of the state, not simply of the districts affected by increases in student enrollment.
4. Districts with higher-than-average percentages of students requiring high-cost facilities are penalized under the existing system because they are required to provide the needed buildings and other facilities at local expense. Such programs for vocational education, education of the disabled, and education of minority and compensatory students are often found in property-poor school districts, where their financing is difficult and certainly inequitable in comparison with that of the typical district.
5. Bonded debt revenue from property tax levies increases criticism and the inequity of the property tax within a given district. All the unfairness, regressivity, and the actual shifting of the tax payment to others for whom the tax was not intended are increased in districts that not only have to finance the local district's share of an equalization program by property taxation but also have to repeat the process in order to obtain funds to defray capital-outlay expenditures.
6. Financing of school facilities usually takes voter approval and in some states a two-thirds majority is required. In California, as recently as March 2000, Proposition 26 failed, which would have changed a 121-year-old clause in the state constitution to a simple majority. It is often extremely difficult to obtain approval in less wealthy districts because of already heavy property tax burdens. Wealthy districts usually have less difficulty with this problem.[16]

Equalization of School Building Costs

The point has already been made that equalization in the financing of local district capital outlays is just as important, justifiable, and necessary as equalization in financing current expenditures. It is equally true that there is no fairness in financing capital outlays exclusively from property tax revenues. Most of the states now provide some state financial assistance, but the time has arrived for states to allocate such funds on the same basis as they provide for current expenditures.

Numerous proposals have been made for revamping the antiquated system of building school buildings with local property tax revenues only. States have frequently come to the rescue of poorer districts, some of which lack the property valuation required to finance buildings even on a long-term bonding basis, given the large expenditures for interest.

In reality, school buildings belong to the state, rather than to the community in which they are located. That being true, the state is obligated to assume major responsibility for their construction. There is no point in state equalization of current expenditure funds if some local districts cannot provide the funds to build adequate facilities for school programs. There is not complete equity in financing education if a wealthy school district can provide luxurious buildings and facilities with very little tax effort at the same time that property-poor districts cannot provide minimum or acceptable facilities even with tremendous effort.

One proposal to solve the problem of providing school facilities through equal effort in poor districts as in rich ones, while relieving property taxpayers of some of the burden of that responsibility, is as follows:

1. Levy a small statewide property tax to be collected by the state for school building purposes.
2. Match the amount received (in some multiple or ratio as determined by state law) from that tax with revenue from other sources—income taxes, sales taxes, or others utilized in that particular state.
3. Combine the two amounts into a state school-building fund to be used for that purpose only.
4. Determine the need for and priority of school buildings to be built for a fixed period of time. (This, of course, may be changed as conditions and the needs of school districts change.)
5. Finance the buildings approved on a pay-as-you-go basis, thereby eliminating the interest costs being paid by most local districts that are required to borrow money over a long period of time.

Those who favor local financing of school construction—usually people in property-rich districts—point to one possible weakness of such a plan: Not all districts would be able to get their needed buildings each year because of the extremely high cost. They also say that the political influence of larger districts would give them higher priority and that state control would be complete—an undesirable result. It is difficult to deny the assertion that state control of school buildings is fairer and much more desirable than state control of the financing and administration of the school program; once the buildings are built, the state cannot control their use and certainly has no reason to.

Capital-Outlay Finance Plans

During the many years of almost exclusive local support for financing capital outlays, several different plans and procedures have evolved in the states. Chief among these have been pay-as-you-go, use of tax reserve funds, and bonding.

Pay-as-You-Go Financing

Pay-as-you-go financing, which has been feasible in some large and relatively wealthy school districts, is an ideal way to finance capital outlays. It is the quickest and perhaps the easiest way of getting the necessary resources from the private sector to the public sector of the economy. It eliminates the expenditure of large sums of money for interest, costs of bond attorney fees, and election costs. It is convenient and tends to reduce the time required to obtain school facilities. This is particularly important in periods of high interest rates and inflation. As the costs of education have risen year after year, fewer districts have been able to take advantage of this method without creating a hardship for some payers of property tax.

Pay-as-you-go plans usually do not produce adequate revenue to finance school-plant construction because of two factors: (1) relatively low assessed valuations in small and average-sized districts compared with the high cost of building and (2) low tax levies due to restrictive legal limitations and high tax rates on property for obtaining the revenue for current expenditures. Many school districts that used this plan successfully in the years of relatively low-cost construction have found it impractical in recent years.

Building Reserve Plan

The accumulation of tax funds to be held in reserve for future building needs has been practiced in a few states; in some others, it is illegal. This plan provides for spreading construction costs over a period of time *before* the buildings are erected—as contrasted with bonding, which spreads the cost over time *after* the schools are constructed. At first consideration, this reserve plan would appear to be a good method of solving this financial problem. However, there are a number of legitimate (and also some controversial) objections to this process:

1. The accumulated funds paid by taxpayers before the money was needed will have cost them the use of such funds with interest that might have been earned, and in many instances they may be funds that were borrowed by taxpayers at rates considerably higher than those available to the school district if these accumulated funds had been invested until they were needed.
2. Changes in the membership of the board of education, changes in the apparent needs of the school district, or both may sometimes result in diversion of these reserve funds to purpose other than those for which they were collected.
3. Some taxpayers who pay into the reserve fund may never receive the attendant benefits because they move from the school district or, over time, their children complete school.
4. Inflation tends to erode the value of the reserve and reduce its purchasing power, rather than increase it as a result of interest accumulation.
5. Some argue, rather feebly, that all those who use the buildings should pay their fair share of the cost of such facilities. This is possible only when the costs are paid over a long period of time—not feasible when pay-as-you-go or pay-in-advance procedures are used.

The validity of this "intergeneration equity" philosophy is open to question. If one espouses the point of view that each generation should pay for the benefits it receives from use of school facilities, one is rejecting the ability-to-pay principle of financing education and reverting to the benefit principle—an untenable position that has long since been rejected in school finance theory. At this point, too, it seems reasonable to assume that each generation will be called on to make sizable payments for school facilities without concern for which generation is getting more or less than its share of benefits.

Although it is usually illegal to combine funds from the current-expenditure budget and the capital-outlay budget, except under certain legally established conditions, the effect of high tax rates in one area is that taxpayer resistance often forces lower tax rates in the other. Thus, the high rates necessary for pay-as-you-go or pay-in-advance payments for capital outlay may force lower rates for current expenditures, resulting in district curtailment of educational programs and services or other presumed economies such as reduced salary increases or increased pupil-teacher ratios.

Some districts that use the building reserve plan make a practice of earmarking certain voted revenues that are accumulated in a sinking fund to finance capital outlays. In practice, the plan is much like the pay-as-you-go process.

Under certain conditions, surpluses may be transferred from current expenditures at the end of a fiscal period to building reserve funds. The use of building reserves is usually subject to prior approval by the eligible voters of a district. In some states, its potential utilization is limited to new construction; in others, it may be used for any construction, including renovation and remodeling.

Bonding

The most common of all local programs for financing capital-outlay and debt-service expenditures is bonding. The process involves obtaining taxpayer favor for the district to issue long-term bonds to obtain funds to construct buildings and provide other facilities. Bond retirement involves levying property taxes to obtain funds to repay the principal and accrued interest. Bonding practices are required in districts with low assessed valuations of property, where tax revenues are not large enough to finance building costs on a current basis, and where the accumulation of reserve funds is either impracticable or illegal.

The principal advantages of the bonding system of raising school construction monies are the following:

1. Relative stability may be maintained in the tax levies necessary for construction. The tax burden is usually small enough each year so that it does not disturb the taxing plan for current-expenditure revenue.
2. Most districts can bond for large enough amounts to meet their building needs, whereas pay-as-you-go financing does not usually provide this opportunity.
3. School buildings and facilities necessary to operate a new program can be obtained when they are needed. Waiting for new construction until the required funds are in the school treasury would result in the denial of many educational

benefits to the unfortunate students who were going through the school program when the facilities were needed but not provided.

4. The generations of people who get the greatest use of the facilities would be the ones to pay for them.
5. In an inflationary period, building costs may exceed interest costs.

There are also some disadvantages to the use of a bonding process for school building construction. These drawbacks include:

1. Total cost of the facilities is greater due to the necessity of paying large amounts of interest. However, the position of most school finance authorities is that the interest cost is small when compared with the benefits obtained by the almost immediate procurement of school facilities when they are needed.
2. Deferred payments often result in the construction of larger and more elaborate facilities than are needed; cash payments tend to reduce the desires of those who supply the funds at the time of purchase.
3. Bonding puts the entire cost of school construction on payers of property tax.

School Bonding Practices

Local school districts or states that are in need of large capital-outlay funds find it necessary, like individuals, to borrow money from some source, to be repaid with interest over a relatively long period of time. Typically, the individual borrowing money signs a short-term note and receives the amount of the loan in cash or credit, to be repaid at an agreed-upon rate of interest over a predetermined period. The process is much the same for a school board needing capital-outlay funds. The board, after receiving formal approval from the school patrons (required in nearly all states), issues and sells bonds to one or more competing companies on the basis of the lowest bid for interest rates. Usually the principal and interest on these bonds are to be paid according to an agreed-upon plan, usually over a 10-, 20-, or 30-year period.

There are several ways to classify bonds: according to the agency (municipality or state) issuing them, the degree of security protecting bondholders, or the procedure to be used in paying them. The most common way of classifying them is by the method used to pay or retire the bond principal. Under this classification, there are two main types: serial bonds and straight-term bonds.

Serial Bonds

The advantages offered by the serial type of bonding are such that its use is required in most of the states. This kind of bond provides for payment of accrued interest each year and also for retirement of part of the principal each year on an amortized basis. This reduces the total interest cost, since interest is charged only on the unpaid balance of the principal. It also affords an extension of further bonding capacity as the amounts on the principal are paid. It is not necessary under this type of bonding to amass large surpluses or sums of money in a sinking fund in anticipation of bond maturity at a later date. Taxes can be held to the total amount required to pay the predetermined costs of debt retirement each year. Such a plan is inflexible and may cause problems in periods of unanticipated decline or reduction in yearly tax receipts for such purposes.

Straight-Term Bonds

Straight-term bonds are those that mature at the end of the bonding period; they have very little real value to a school district. Although they are said to have been important and useful in financing capital outlays in years past, their history has been one of mismanagement and poor planning. Hence, they are not used extensively today. There is little to be gained by a district's delaying retirement of a debt until the end of the bonding period. The arguments were forcefully stated by *The Bond Buyer:* "The debt retirement plan should provide for: (1) the retirement of principal at least as rapidly as the capital assets acquired while the proceeds depreciate; (2) declining debt service on existing debt, otherwise the almost inevitable sale of emergency or unanticipated issues will result in debt service having a decidedly upward bias; (3) a maturity schedule that does not add undue rigidity to the budget."[17]

A variation of the straight-term bond saw the development of legal requirements for establishing and maintaining "sinking funds" for the payment of bonded indebtedness. These requirements called for the proceeds of debt retirement tax levies to be placed in a specific fund for payment of the bond principal at maturity. The usually anticipated problems of administering reserve funds—proper and safe investment, protection against mismanagement, and avoidance of making loans or transfers to other accounts—have continued in the administration of this kind of bond.

Callable Bonds

Bond amortization plans are usually rigid and prevent adjustment over the period of their retirement. Bonds that are sold during a period of high interest rates may thereby become a heavy burden if interest rates drop appreciably during the life of the bond issue. For that reason, "callable" or "refundable" options are available to the school district at the time of the original issue of the bonds. These provide for premature payment of the debt, with reissue of the bonds at a more favorable rate of interest. Since this feature protects only the school district from falling interest rates (with no protection to the bonding company for increasing rates), the cost of such an option makes callable bonds a little more expensive than ordinary serial or straight-term bonds.

Registered Bonds

Registered bonds, as the name implies, require that all payments be made solely to the registered owners on record with the school district that issued them. Historically, districts have used bearer or coupon bonds rather than registered bonds because of the lack of need to keep meticulous records, negotiability, and easy transferability of ownership. That option no longer exists.

Bonds sold by school districts must be registered, a result of the Tax Equity and Fiscal Responsibilities Act (TEFRA). Sponsors of the law believed that owners of bearer bonds were not paying their fair share of taxes. With bearer bonds, no list of owners is kept. Interest is paid to the owner by taking the bond coupon from a booklet and presenting it for payment. To transfer ownership, a person merely gives the bond to another. Because no one can positively identify the bearer, one could avoid paying taxes. A person could use bearer bonds as gifts and not have to report the transfer. The IRS believed that in excess of $100 million of unreported income was the result. The act has not gone unnoticed in the courts. South Carolina filed suit, and the National Governor's Association joined, but the Supreme Court upheld TEFRA.

Now, school districts must issue bonds in registered form and keep records of the owners' names, addresses, and social security numbers. Interest paid and ownership transfers must be recorded. School districts are to comply with TEFRA, which means increased costs for maintaining records.

Bonding Rates

It is important for school districts to establish and maintain a good bond rating, which results in lower interest when bonds are sold. Bonds range from a high of AAA, to a low of a junk bond. Some of the other categories are Aaa, B, b, C, and c. These ratings reflect the fiscal condition of the district and are determined by the amount of debt, record of debt payment, and the correlation between assessed value within the district and the amount of debt. Local districts must not only rely on their own pecuniary management procedures, but ratings are influenced by the financial condition of the city or county in which they are located.

Some states are now allowing local districts to utilize the state's rating and guaranteeing that obligations will be met. A state with a strong financial profile may have a AAA rating, whereas the district may have an underlying A1 position. This provides a stronger base for districts, making bonds easier to market and resulting in lower interest payments.

The ratings are established and compiled by a variety of agencies. Personnel in a district should support actions that maintain high bond ratings.

Bond Sales

Bonds are most often issued in $1,000 or $5,000 amounts. They are sold through competitive bidding. Interest rates are determined by the economic conditions at the time they are sold, the extent and degree of competition in the market, the bond rating, and the length of the term for which they are issued. School bonds are attractive investments because of their exemption from federal and state income taxes.

Bonding Power

Bonding is not an implied power that school districts may use at their discretion and convenience; it must be expressed in the body of state law. The legislature has full power to determine the conditions required for bonding and the limits of bond issues available to each district. Likewise, it has plenary power to determine the qualifications of voters, how the bonds are to be sold, and any other pertinent conditions surrounding the transaction. However, the statutory conditions concerning bonding are often directory rather than mandatory, and courts usually support bond business where substantial compliance with the law has existed. Strict compliance is expected, but the intent of the statutes is to determine the will of the voters. Consequently, the legality of bond elections and sales is usually determined by whether the procedures have achieved what the people actually wanted.

Bond Attorney

The increasing complexity of state requirements for bonding and the increasing legal and financial problems facing the school administrator make it almost mandatory for school districts to employ a bond attorney when a bond issue is contemplated. The attorney's experience and training provide the school board and superintendent with advice and legal information necessary to complete this important aspect of financing the construction of school facilities. Services include securing legally accepted affirmation of bonding by the voters and arranging proper and advantageous sale of bonds to the best interest of the school district.

Bonds Are Debentures

School district bonds are debentures acknowledging a debt that the school district owes to the bondholder; they do not have collateral backing or ordinary mortgage rights, however. They are not mortgages in the typical sense of the word, for they do not permit bondholders to foreclose and take over the physical assets of a district in the event of default in payment. The various lawmaking bodies and the courts, while recognizing that taking possession of school property by an unpaid bondholder would be against the interest of the people in general, protect the bondholders by requiring that certain tax funds be earmarked and set aside in special funds or accounts for bond redemption.

Amortization Schedules

The selection of the best schedule for a district to retire a bond issue depends on whether additional bonds will be involved before the issue in question is repaid. It requires no particular skill to amortize one issue over a period of years, keeping total interest and principal payments (and consequently tax levies) at a nearly constant figure. The problem is rather complicated, however, in districts that require frequent bond issues of varying amounts and with varying interest rates.

Long-range planning in school districts involves anticipation of school construction and bonding for several years ahead. Although there is no mathematical or exact rule for amortizing bond issues, a few practical guidelines may help the school administrator plan when frequent issues are expected:

1. The bond principal should be retired in an orderly fashion as soon as possible, in order to reduce bond interest cost and to increase future debt capacity.
2. Bond levies should ordinarily be kept somewhat constant, with the highest levy being set at the time of voter approval and with legal reserves being kept reasonably high. (Taxpayers often resent frequent increases in tax rates, particularly when they come as a result of poor planning or lack of foresight by the school board.)
3. Promises made by school personnel concerning bond-redemption tax levies should be made only on the basis of careful long-range planning. Such promises should be kept.
4. Surplus sums of money held in anticipation of bond payments should be invested within the restrictions of state law.
5. Bonds should be refunded whenever it is to the financial interest of the district to do so.
6. School boards should utilize consultant help from finance authorities in planning long-range bonding programs.
7. Bond and debt service levies should not be so high that taxpayer resistance forces a reduction of the levy for current expenditures.
8. The people should be kept informed concerning the long-range construction and bonding plans of the school district.
9. Indices of amortization can often be used to advantage in preparing complex amortization schedules.
10. So far as possible, bond payment schedules should anticipate future school facts and figures that affect fiscal matters. Changes in projected school population, expected fluctuations in property assessment values, economic trends, and changes foreseen in the policies of the community and state toward indebtedness and future educational needs are a few of the most important matters to consider.

Refunding Bonds

Lower interest rates and the need for additional capital outlays have motivated some districts to refund outstanding bonds. The concept is similar to an individual borrowing money to consolidate debts, paying off existing obligations, extending the months (or years) of payments, and making only one payment to a single lending source. The advantages of refunding or refinancing are (1) interest rates are generally lower; (2) obligations are consolidated, and there is only one expiration date; and (3) a lower payment frees capital for other needed projects. Disadvantages include (1) the public does not have the opportunity to vote on the measure, except in board meeting hearings; (2) the obligation is spread over a longer period of time; and (3) total interest throughout the full transaction may be greater.

Table 11.2 shows a cash flow analysis for a school district after refunding bonds of $8,520,000. The goal was to lower debt-service payments and collect revenue toward future capital costs. Outlined in the table are the principal and interest due yearly, a comparison with the prior issues, and the savings accrued from refinancing over the 10-year period. Needless to say, when school administrators and boards of ed-

TABLE 11.2 **Refunding $8,520,000 Bond Issue**

Board of Education of XYZ School District
$8,520,000 General Obligation Refunding Bonds
Series June 15, 2000

Gross Debt Service Comparison

Date	Principal	Coupon	Interest	New D/S	Old D/S	Savings	Fiscal Total
6/15/2000	—	—	—	—	—	—	—
12/15/2000	—	—	212,841.25	212,841.25	254,081.25	41,240.00	—
6/15/2001	685,000.00	4.300%	212,841.25	897,841.25	894,081.25	(3,760.00)	37,480.00
12/15/2001	—	—	198,113.75	198,113.75	235,681.25	37,567.50	—
6/15/2002	715,000.00	4.750%	198,113.75	913,113.75	910,681.25	(2,432.50)	35,135.00
12/15/2002	—	—	181,132.50	181,132.50	215,106.25	34,973.75	—
6/15/2003	745,000.00	4.900%	181,132.50	926,132.50	931,106.25	4,973.75	39,947.50
12/15/2003	—	—	162,880.00	162,880.00	195,192.50	32,312.50	—
6/15/2004	780,000.00	4.950%	162,880.00	942,880.00	950,192.50	7,312.50	39,625.00
12/15/2004	—	—	143,575.00	143,575.00	172,731.25	29,156.25	—
6/15/2005	820,000.00	5.000%	143,575.00	963,575.00	972,731.25	9,156.25	38,312.50
12/15/2005	—	—	123,075.00	123,075.00	148,731.25	25,656.25	—
6/15/2006	865,000.00	5.050%	123,075.00	988,075.00	998,731.25	10,656.25	36,312.50
12/15/2006	—	—	101,233.75	101,233.75	123,018.75	21,785.00	—
6/15/2007	905,000.00	5.100%	101,233.75	1,006,233.75	1,023,018.75	16,785.00	38,570.00
12/15/2007	—	—	78,156.25	78,156.25	95,343.75	17,187.50	—
6/15/2008	950,000.00	5.150%	78,156.25	1,028,156.25	1,050,343.75	22,187.50	39,375.00
12/15/2008	—	—	53,693.75	53,693.75	65,738.75	12,045.00	—
6/15/2009	1,000,000.00	5.200%	53,693.75	1,053,693.75	1,080,738.75	27,045.00	39,090.00
12/15/2009	—	—	27,693.75	27,693.75	34,020.00	6,326.25	—
6/15/2010	1,055,000.00	5.250%	27,693.75	1,082,693.75	1,114,020.00	31,326.25	37,652.50
Total	**8,520,000.00**	—	**2,564,790.00**	**11,084,790.00**	**11,466,290.00**	**381,500.00**	

Source: Zions Bank, Public Finance, Salt Lake City, UT. Reprinted by permission.

ucation refund bonds, much analysis of the fiscal position of the district is needed. As with the issuance of other bonds, the costs are a factor. For example, in this particular district, the charges for the services (not included in Table 11.2) are as follows:

Deposit to Escrow Fund	$8,385,000
Underwriter's discount (fee)	81,482
Costs of issuance	53,518
Total	$8,520,000

Salmon and Wilkerson emphasized another caution dealing with refunding:

> Advance refunding of municipal bonds by school districts is legally permissible in many states and would be a desirable policy option for all states. The Internal Revenue Service (IRS) has promulgated a series of regulations that provide the framework for such refunding (Code of Federal Regulations). The primary intent of the IRS regulations is to deny unreasonable profits to the underwriters and to prohibit issuance of tax-exempt securities by governmental units that invest the proceeds in materially higher yield, taxable securities. However, if the IRS regulations are not followed properly, such municipal bonds might be classified as "arbitrage bonds" and the school district could lose its tax-exempt status (United States Code Service 1983).[18]

Bonding Authorities

The tightening of budgets and tax-limiting legislation has made it necessary for states and local districts to seek creative ways to finance new facilities and to make better utilization of existing buildings. Some states are broadening the concept of bonding authorities and bond banks to provide some flexible alternatives in solving capital-outlay problems. Camp and Salmon described the concept in this way:

> The bonding authority concept, first developed at the turn of the century to circumvent constitutional debt limitations, and the bond bank concept, introduced in the early 1960s to consolidate the issues of subordinate political entities under the auspices of a state corporation issue, have evolved in many cases as effective and efficient methods of assisting local education agencies in financing school facility construction and other capital improvement programs. A series of these public corporations has developed in varying forms in over one-third of the states by entering into lease-purchase agreements with or purchasing bonds of local education agencies, thus supplying badly needed funds for the construction and improvement of local school buildings.[19]

Camp and Salmon list the following as characteristics of a public bonding corporation:

1. It acts as an alternative financing vehicle that provides credit assistance to local governments and acts as an intermediary between the investment market and the local government. It is an autonomous governmental corporation that issues its own bonds for the purpose of constructing public elementary and secondary school buildings. It does not enter into the assessment of need or initial evaluations surrounding the determination of physical characteristics of the buildings, and it does not participate in the actual operation of the facilities following construction. It acts primarily in a financing capacity.

2. It operates as a "quasi-business" organization with strong exclusion-principal and/or private-good characteristics. In general, it operates without yearly state appropriations, even though it can use certain state accounts as a reserve to secure better bond ratings. In addition to its other services as a financial intermediary, it is empowered to accept certain state grants, helping to defer a portion of the costs to local districts.

3. It has the power to incur debt and to issue bonds that are not considered a debt of the state, but it cannot tax except in special emergency conditions. The proceeds of the issue are used to purchase bonds and other evidences of indebtedness, including leases for the purpose of school construction. Receipts from rents, fees, or bonds are used to secure and service bonded indebtedness.

4. It purchases revenue or general obligation bonds from or enters into leases with the local school governing units, and issues revenue bonds and/or general or moral obligation bonds.

5. It assists local units with marketing debt issues and often creates a market of size for the debt of small local education agencies.[20]

A typical building authority project is established by a state statute that allows municipal bonds to be sold for planning and building schools. "The building authority leases the school facilities to the school system at a cost that covers the principal and interest on the bonds and the cost of the building authority operation. Provision is usually made for the facilities to become the property of the school system upon the retirement of the bonds, and attendant costs."[21] The debt is considered a short-term obligation and provides some additional risks for those who purchase the bonds, which often results in a higher interest rate. The district benefits by being able to provide facilities to meet present needs and by not requiring a bond election.

States providing local districts the opportunity to use certain state accounts as a reserve to secure better bond ratings is gaining more support. The concept allows local districts to issue bonds with the state ensuring that the bonds will be paid in full and within the time limit specified. With such support, bonding agencies are able to increase ratings and usually provide much better interest rates to local districts. The state, through its capacity to control financial resources to districts, provides a service that is virtually cost free.

Impact Fees

Local governments have utilized impact fees and special assessments to cover the costs of certain infrastructure projects for a number of years. Recently, some school districts have moved to require that purchasers of homes in newly developed areas be assessed such a fee to cover costs of a new school in the impacted area. The rationale for assessing an impact fee is that it would reduce the financial burden of current residents who may otherwise share the cost of additional facilities through higher taxes.

Politically, this approach becomes popular with current residents. On the other hand, those who are assessed the impact fee argue that such a fee is unfair because it requires them to make double payments—one for the initial fee and one through property taxes used to retire public debt for existing schools.

In some instances, land developers may donate or be requested to provide enough acreage in a subdivision to accommodate a new school. Although having a school within a neighborhood is a plus in selling homes, the cost for donated property may, in actuality, be a hidden cost for home buyers that could be equivalent to an impact fee.

The legality of impact fees, per se, has been challenged in the courts on the basis of violating due process and equal protection, and is held to constitute taking of private property without just compensation. In education finance, the question may be asked: Is it equitable to charge a local impact fee when it is a state responsibility to equalize capital outlay as well as maintenance and operation? This and other legal issues may be raised as more and more financially strapped local school districts look at impact fees as a way to assist in providing much needed facilities.

Other Alternatives

An option some districts are using and many states are encouraging is the fuller utilization of buildings through the adoption of a year-round schedule. Students attend the prescribed number of days of school, but they are spread throughout the year in various combinations (e.g., 45 days in school, 15 days out). Theoretically, on a four-track system, one-third more students can attend the school, saving the costs of a new building for every four schools on the plan. Proponents of the year-round schedule point out that other savings accrue in the maintenance and operation area.

Earthman discussed options for meeting facility needs and freeing capital outlays. He suggested (1) selling or exchanging existing school facilities or property, (2) entering into lease agreements, (3) leasing air rights over a school site, and (4) cooperating with other agencies in sharing facilities. He summarized:

> None of these alternatives are complete solutions to the crunch that school systems feel for housing students and none of the alternatives are even new ideas to most educational administrators, but the identified alternatives might be means that can be used in combination to help meet a need. Because of unstable demographic conditions and subsequent change in program demand, the schools may need to more fully explore the use of these alternatives than previously.[22]

Summary

Providing funds for school construction is as much a state responsibility as providing operating funds. However, most states have required local districts to use property taxes for capital-outlay expenditures. The financing of local school district facilities at the state level has been a low-priority item, and few states have yet developed an equalization formula for this purpose. Court cases in Tennessee, New Jersey, Texas, Missouri, Alaska, and West Virginia are providing impetus for greater state involvement. The costs are not meager; an NEA survey shows estimated needs exceed $321.9 billion for infrastructure and technology. Tax limitation laws and court cases such as *Pauley* v. *Bailey* may provide impetus for greater state involvement.

One of the major factors that has restrained many districts from needed construction has been the low assessment value of their taxable property. Largely because of such low assessment values, most school construction has been financed by some form of bonding. Pay-as-you-go financing, a building reserve plan (where legal), and bonding have advantages as well as disadvantages as methods of financing capital outlays. Less used but feasible approaches for acquiring needed revenues include bonding authorities, refunding bonds, switching to year-round operation, and impact fees.

Most of the states are gradually increasing the amounts of money they provide to assist local districts in providing adequate school buildings. The bonding process is fairly complicated, and school districts that handle construction in this way should use the services of a bonding attorney.

Bonding rates are an important factor to consider for those districts that need to sell bonds for capital-outlay needs. Ratings reflect the fiscal condition of the district and influence the interest that would be required on the bonds. Some states are allowing local districts to utilize their better rates, which make bonds more marketable and result in lower interest payments.

School-building funds allocated by state to local districts should be disbursed on an equalization basis, just as operating funds are. Property taxes should not bear the entire cost of financing school facilities. Increasing the amount the state pays for financing such facilities, of course, puts the burden of taxes on forms of wealth other than real property.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *capital-outlay, expenditures, pay-as-you-go financing, building reserve fund, bonding, serial bonds, straight-term bonds, callable bonds, registered bonds, debentures, amortization, refunding bonds, bonding authorities, impact fees.*
2. Some districts in the United States are faced with the problem of eliminating buildings at the same time that others are in dire need of building additional ones. Determine the type of school-building problem in the city or county in which you live and what methods are being used by the school boards to solve their building problems.
3. Summarize the arguments for and against local school districts being required to finance their own school construction, regardless of their taxable wealth.
4. Outline a plan for greater state financial support for the construction of local school district buildings.
5. A few states now provide most of the funds for new school construction. Find out what kinds of problems accompany such an arrangement and the methods used to overcome these problems.

6. Determine what criteria a state should use to equalize capital-outlay expenditures in districts. How should it be decided where new buildings are to be built? When buildings are needed? What kinds of capital equipment should be provided? When capital equipment should be replaced? When school districts are "equal" in terms of capital expenditures?
7. Year-round schools, extended days, and double shifts are methods of utilizing school buildings more fully. Discuss the pros and cons of each plan.
8. Several buildings in your district were built over 50 years ago and are now outdated and crowded. Citizens in your district say that when they were students, these buildings were adequate, so why should they have to pay for new buildings? What approaches would you take to convince the voters that new buildings are needed?

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER

12

Administering the School Budget

To make sound decisions educational leaders at the school level must be adequately trained in developing a budget, accounting for funds, expending revenues judicially, maintaining appropriate records, and following generally accepted accounting practices.

—J. D. Willardson, 2002

The innovations that are currently receiving emphasis in curricular and administrative aspects of education have their counterparts in school finance theories and practices, including budgeting and accounting. Present budgetary practices are the result of a long evolutionary development, which has recently been accelerating rather than stabilizing or decelerating. The traditional principles and practices of budgeting, which seemed to be well established and proven, are now being supplanted or supplemented by more sophisticated systems of interpreting the educational program of the school.

Evolution of Budgetary Practices

Historians report that budgetary practices originated in and received their greatest early development in England. The British government was using budgeting procedures two centuries before their use by the U.S. government and was practicing full-fledged budgeting by 1822. As developed in England, budgeting involved budget preparation by the executive branch of government, approval of the budget by the legislative branch (with amendments when deemed necessary or appropriate), authorization of tax levies by the legislative branch to meet the expected expenditures, and administration by the executive branch. Johns and Morphet noted the importance of these developments in budgetary theory: "This may seem like a very simple and natural arrangement. But it took hundreds of years for the people to wrest from ruling monarchs the authority to levy taxes and to determine governmental expenditures.... The budget is not just a document containing a list of receipts and expenditures but it is a process by which the people in a democracy exercise their constitutional right to govern themselves."[1]

Budgeting Developed Slowly in America

In the early history of this country, the presence of seemingly boundless wealth thwarted the development of sound budgetary practices in government. Petty jealousies between members of Congress and the executive branch also contributed in large measure to the slow metamorphosis of budgeting practices. The first law providing for a national budget was passed in 1921; it set the pattern for the present budgetary procedures of the federal government.[2]

Budgetary practices became common in business and industry before local boards of education accepted them generally. Until the end of the first quarter of the twentieth century, public school budgetary practices were unrefined and not standardized to any appreciable degree. As in the case of many other innovative practices, urban school systems developed budgetary patterns and routines before rural schools did. Gradually, the various states enacted laws that established guidelines and specifics required of all districts in the receiving and disbursing of school funds. The extent of these requirements and the degree of detail of accounting have increased until such practices have become relatively standardized for similar kinds of districts within each state.

The Budget

Because everyone uses the word *budget* in government, business, industry, education, and even the home, it is presumed to be commonly understood. Technically, however, *budget* may mean different things to different people. Certainly, the purposes for which budgets are prepared and the degree of adherence to budgetary detail and administration vary considerably among the people and agencies that use them.

Definition

A *budget* is a financial plan that involves at least four elements: (1) planning, (2) receiving funds, (3) spending funds, and (4) evaluating results—all performed within the limits of a predetermined time. Thus, budgeting is defining priorities and needs, receiving, and spending funds over a particular period, usually a year for school districts. The evaluative aspects cover examining previous budgets in order to build better budgets for succeeding periods.

Roe defined the educational budget "as the translation of educational needs into a financial plan which is interpreted to the public in such a way that when formally adopted it expresses the kind of educational program the community is willing to support, financially and morally, for a one-year period."[3] Translating those needs into a budget can follow a pattern as (1) identifying needs, (2) establishing goals, (3) organizing objectives, (4) building a program in meeting those objectives, and (5) providing a budget to fund those programs (see Figure 12.1).

Few people question the importance of budgeting in the public schools, the branches of government, business, industry, or any activity that involves receiving and

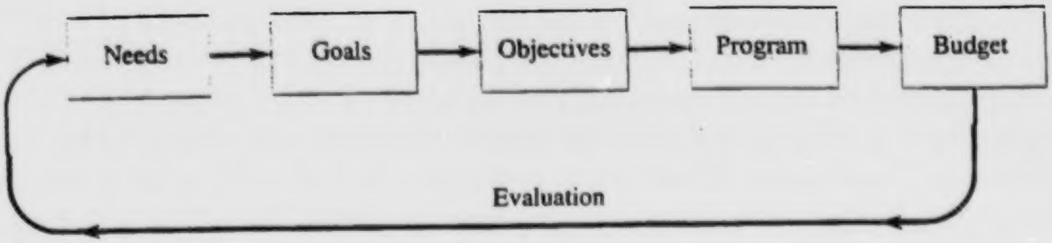


FIGURE 12.1 Steps for Developing a Financial Plan

expending large sums of money. Its importance in school districts increases as its function develops from purely mechanical and mathematical accounting to appraisal and translation of the educational program into meaningful terms. In the words of Hack and associates, some of the benefits of budgeting are:

1. It requires a plan of action for the future.
2. It requires an appraisal of past activities in relation to planned activities.
3. It necessitates the formulation of work plans.
4. It necessitates expenditures and estimating revenues.
5. It mandates orderly planning and coordination throughout the organization.
6. It establishes a system of management controls.
7. It serves as a public information system.[4]

Some view the continuous process of developing the educational budget as a way of raising the "level of living" and of expressing "broad social policy."[5]

Purposes of Budgetary Practices

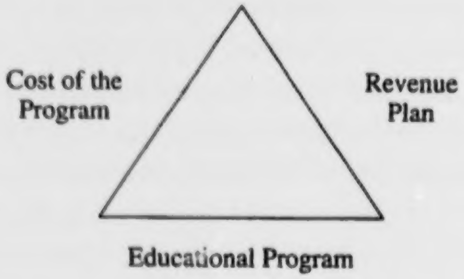
The school district budget serves a number of important functions:

1. It projects the proposed school program and educational plan of the district for the next fiscal period.
2. It shows the sources of funds, anticipated expenditures, and allocation of authority for administering budgetary items.
3. It serves to inform the public about the educational program of the school.
4. It provides a guide for evaluating a year's program and a means of comparing school services with those that have been offered in other years.
5. It provides the motivation for careful planning, for establishing systems of control, and for wise and effective expenditure of funds.
6. It points out the relationship of the state, federal, and local units of government in supporting education.

Budgetary administration varies with state laws and with administrative interpretation. To some, it may be the master to be followed with strictness and complete propriety. To others, it is a guide that need not be followed blindly; its structure must not take precedence over the effects on the educational program that school administrators propose for the benefit of students.

The Budget's Three Dimensions

Traditionally, since its first use by De Young, the school district budget has been represented by an equilateral triangle: The base is the educational program, with one side the cost necessary to produce that program, and the other side the revenue plan. In theory, the educational plan is determined first. It is then converted into cost terms, and finally the determination of the sources of required revenues is made. The rationale for such a sequence is that our educational programs are to be planned for the peculiar needs of the pupils, without letting the available funds be the master or limiting factor in determining the bounds of the educational program.



In the past, affluent school districts were able to follow sound principles and accepted procedures in preparing the budget. Where revenue limitations were not too severe, the process worked well. In districts with restricted revenue, budget building was sometimes reversed in sequence of preparation; the revenue was determined and then school officials decided what kinds of programs and services could be purchased for the amount of the expected revenue. This procedure often resulted in selection of programs and services that were inexpensive rather than those that represented the real needs of the pupils. Such planners resemble the prospective consumer who, in the restaurant or the variety store, reads the menu or price list from right to left. He or she may purchase goods or services that do not meet his or her dietary or other needs simply because they are less expensive than those that would be appropriate.

Determining the Educational Program

The educational program is directly related to the purposes and objectives of the school. Unfortunately, the aims and objectives of educational institutions are not always clear or well defined. This makes determination of programs and services very difficult. The superintendent is faced with a myriad of questions. What services of the school should be increased next year? Should the school provide more guidance services, or should it put more emphasis on equipping teachers with better facilities and instructional media? Should more emphasis be put on expensive programs such as driver education, or should the social science offerings be increased? Should the school provide for kindergartens and early school admission programs? To what extent should the pupils participate in paying the costs of education with incidental fees and charges? These and countless other questions must be answered in preparing the proposed educational program to be sponsored by each school district.

The superintendent, regardless of the complexity of school problems, must work with the staff, the school board, and the parents in the community to determine the proposed educational objectives and programs for the subsequent fiscal year and for several years ahead. Superintendents who suggest to their boards of education that, since there is a potential increase of 5 percent in school revenue, each area of the budget will automatically be increased by that amount are making at least three errors. (1) They are presuming that the previous budget was perfect and that since costs have increased, each part of the budget must therefore be increased by the same amount. (2) They are ignoring the need for evaluating the past year's budget and examining and resolving such imbalances as it may have had. (3) They are denying those with an interest in the school—teachers, staff members, school board members, pupils, and the general public—their right and responsibility of continuous evaluation of the public school program.

Superintendents working with boards of education are responsible for involving people in determining educational policies and objectives. They should use all their public relations know-how to get committees or representatives of the PTA, the press, radio, television, and other groups to participate in such policy making. Final decisions regarding proposed program changes and innovations must rest with the board of education, acting with the advice and recommendations of the superintendent and his or her staff.

Preparing the Budget Document

For budgetary purposes, the educational plan is valueless until converted into dollar costs. Under the direction of the superintendent, those who will be responsible for specific parts of the educational plan determine the needs of these programs. Sound budgeting theory dictates that teachers and other school personnel should be given forms and figures indicating budget allotments and expenditures for one or more past years, with blanks for estimates of next year's needs. As years pass, the budget histories that are established become useful in providing fiscal information for succeeding years.

With increasing frequency, districts are using another aspect of budget building by school personnel. In addition to having teachers and others suggest what they *need* for the following year, many progressive districts ask teachers also to submit requests for those supplies and facilities required for an optimum or superior program, or even for an alternative program. The administration is, in effect, asking school personnel to indicate their *wants* or *desires* that, if granted, would provide the best possible program that each individual can envision at that moment. Teachers who in past years may not have received the supplies and equipment they requested may not be too anxious to make the extra effort to determine what they could use effectively, if such were to be available. However, regardless of the final disposition of the individual's requests according to needs or desires, it is a worthwhile experience in itself for each school employee to determine how much money should be allocated and for what it should be spent to provide the best possible educational program. Such a problem as determining the kind and frequency of use of instructional media under an ideal budget arrangement will cause the teacher to evaluate carefully the many alternatives available in the teaching process. Besides, there is always the possibility that the requested optimum program may be accepted and implemented in the final budget document.

Unfortunately, the extent of involvement of teachers and other staff members in determining the educational program and allocating resources to attain the school's objectives is minimal in practice. For various reasons, many school administrators use the previous year's budget as the sole basis for the budget for the next year. In this way, inequities and imbalances tend to become perpetuated. Some administrators find that district office determination of budget needs is easier, less frustrating, and more acceptable to many teachers and staff members who treat the business of budgeting with apathy or indifference.

> This concept views the development of the budget as strictly a responsibility of management. No staff help is asked for or desired. The central office gives the impression that budgeting is a very complex process, and that only the "chosen few" are sufficiently sophisticated to participate. The prevailing philosophy seems to be that if fewer people know about the budget, there will be less static and fewer questions. Often, value judgments are made without proper evaluation and with no options offered to those affected. This tight-ship approach is symptomatic of authoritarian systems and has hastened the coming of our present era of negotiations, citizen involvement, and student awareness.[6]

In the districts that follow the staff participation method of budgetary preparation, the principal of each of the various attendance areas combines the budget requests of all staff members working under his or her direction, checks them for omissions, duplications, and errors, and then submits them (usually in combined form) to the school district office, where they are summarized and combined into totals for the district. From these reports and from similar requests from district employees, a tentative budget document is prepared.

The tentative budget is presented to the board of education for its study and recommendations for changes. The board is free to make whatever changes it desires within the limits of the statutes governing such practices in the state. The tentative budget is then accepted, summaries are prepared, and the board of education and the superintendent prepare for a budget hearing.

The budget does not stand by itself. It is related to many other records involved in the school district's business affairs, such as salary schedules, insurance policies, and inventories, and is influenced by them. Many of these schedules should accompany the budget document as it is presented to the board for study and adoption. They aid greatly in interpreting the message that the budget conveys. Ovsiew and Castetter made an excellent and inclusive list of such materials:

> Suggested materials to accompany the budget: items marked with black squares suggest materials that should be included in the budget document.

- Letter of transmittal
- Statement of introduction, especially relating to the school philosophy
- Justifications
  - Curriculum review, by unit, divisions, and departments
  - Audited statements of funds
  - Bonding schedule
- Recapitulations of sections of the budget
- Salary schedules
- Statistical summary of salary program, showing experience, training, and classifications
  - Statistical summary of other pertinent data, such as
  - Enrollment, showing trends and projections
  - Numerical adequacy of staff
  - Average daily attendance
  - Pupil-teacher ratio in instruction
  - Per pupil costs by budget categories
  - Enrollment by curriculum in the high school
  - State-aid provisions, indicating changes
  - Insurance in force
  - Transportation schedules
  - Property tax experience, including relationship to assessments, market values, percent of collection, and millage limits
  - Nonproperty tax experience, by type levied and by potential
  - Cost experience, by trends in prices of selected items
  - Retirement and social security schedules
- Expenditure and revenue items for two to three previous years
  - Policy statements mandating expenditures
  - Unmet needs report
  - Items mandated by new laws or official directives
  - Inventory report
  - Budget transfers during previous year
  - Summary of germane committee reports
  - Comparative costs data with selected school district[7]

The Budget Hearing

Superintendents have long since discovered that there is little interest in budget hearings if no effort is made to summarize and interpret the massive lists of figures and minute details of the budget document. In preparing for a hearing, the superintendent must exercise ingenuity in devising an interesting and informative way of presenting the pertinent facts about the budget so that they can be easily understood by lay citizens. The use of audiovisual materials—videotapes, charts, slides, films, transparencies, and the like—helps greatly in elucidating the points that are of most interest and concern to school patrons.

Not all states have laws that require a formal hearing before adoption of the annual school district budget. In those that do, the board and the administrative staff present and explain the tentative budget, listen to the suggestions and criticisms of school patrons, and make any necessary justifications of questioned items or policies. Final approval of the budget usually rests with the school board in fiscally independent districts. In fiscally dependent districts, a city or county board usually must pass on the total budget levy authorized by the school board, relating it to the tentative budgets of other agencies of government under its general jurisdiction. In such districts, the city or county board usually has the power to require a reduction of the budget levy if necessary, but detailed alterations are left to the board of education, within the accepted total levy approved.

General Provisions of the Budget

Budgets should provide for classification of receipts and expenditures in line with the accounting system that the federal, state, and local school district require. The budget should provide for separation of general expenditure funds from bond and debt-service funds. The current-expenditures budget should provide for emergencies by means of a contingency fund. Provision should be made, where possible, for a cash surplus at the beginning of the fiscal period to minimize the need for borrowing money until local tax money or state allocations are received.

School administrators often find it advantageous to provide a comparison of new budget items with similar considerations of the past year or two. There is much to be said in favor of a written explanation and justification of some budget items. Unexplained arithmetical figures in the budget may mean little to the uninformed person, who sees them without perspective or rationale. This is particularly true when unusual changes are being made for specific items. Critics of unexplained items or changes often become supporters of them when they understand the reasons behind them.

Some administrators and students of budgetary practice urge the establishment of priorities in the spending plan of the school district. Such priorities can only be established after much study of the relative value of alternative parts of the school program. The practical advantages of this procedure become obvious when revenues are less than expected or when costs exceed expectations.

Administration of the Budget

Once the budget is formally adopted, it becomes effective on the first day of the new fiscal period. The superintendent (by law in some states and by assignment in others) is the executive officer charged with carrying out the programs that the budget authorizes. Unfortunately, some school districts try to differentiate between the strictly educational responsibilities of the superintendent and the fiscal policies, which are supervised by a clerk or business administrator who is responsible directly to the board of education. The dilemma that such an arrangement creates is antithetical to the purposes of the school. A dual head to a school system, with one administrator in charge of the instructional program and the other guarding the treasury, can work satisfactorily only under ideal conditions, and these seldom exist. The board of education should recognize that the superintendent as its executive officer must be in charge of the entire school operation. The official in charge of the business functions of the school, regardless of title, must be directly responsible to the superintendent. Only with such an arrangement can the board hold the superintendent accountable for the educational program of the school district.

Expending Money

Once the budget is formally adopted, the various line items and amounts are posted to the official accounting forms and funding sources of the district. The new budget then becomes a daily guide for the expenditure of school funds. Work plans and expenditure policies must be established so that the money can be dispensed for the purposes for which it was intended without undue red tape or unnecessary inconvenience. A district administrator or building principal who deems it prudent to *save* money from a fiscal year budget to build up a surplus balance for subsequent years is not being fiscally responsible to students currently enrolled, staff members, taxpayers, and the budgetary process. The purpose of the budget is not to save money; it is to help spend it wisely and expeditiously when needed. All school employees need to know the policies and specific procedures to be followed in carrying out the budgetary plan. It should not be hoped or planned that complicated or time-wasting procedures will discourage proper expenditure of the necessary funds to operate any aspects of the school program that have been approved.

Evaluation of the Budget

No person, least of all the school administrator, expects a perfect budget. He or she knows that careful planning and evaluation may reduce but never completely eliminate the need for making changes in the current budget. The board of education can do this when necessary, operating within the legal requirements of such adjustments. Of course, if the budget is changed at will with impunity, it becomes a meaningless document, of questionable value to the school district.

Superintendents are responsible for seeing that the budget is more than just an accounting system built and administered around a legal requirement to make guesses or estimates about receipts and expenditures. They have the obligation to demonstrate that the budget is a well-conceived monetary summary of the educational plan of the school district for a specific time. They must be able to demonstrate that it is constructed around the specific purposes or objectives of the schools and the plans, services, personnel, and systems to be used in achieving those objectives.

Each succeeding budget should be an improvement over the previous one in terms of utility and effectiveness. It should indicate steady progress toward achieving its main processes and purposes, such as more significant involvement of school personnel and citizens in its preparation, more concerted effort to avoid program imbalance, more conferring and more effective rationale to justify budgetary items, greater effort toward continuous planning, and greater emphasis on program budgeting, with the provision for alternative programs to meet specific objectives.

One of the important lessons school administrators learn is that the budget is the business of all the people in the district, not just the official concern of the superintendent and the school board. This concept has been a long time in receiving wide acceptance. School patrons cannot be expected to support financial claims against them without some degree of understanding of purpose. In reality, budget critics often become budget defenders when they understand the objectives the school is attempting to achieve and the financial limitations under which it operates.

The superintendent is responsible for keeping the board of education informed about the operation and the effectiveness of the budget. He or she usually issues financial reports to the board on a regular basis, showing total expenditures to date, balances in the chief accounts, and anticipated problems in keeping within main budget item limitations. The superintendent determines the extent to which the budget has been effective, what improvements should be made in the next budget, what imbalances have been created between programs that are overfinanced compared with those that are underfinanced, and other necessary subjective and objective evaluations of budget performance. He or she takes special note and reports from time to time to the board concerning the everpresent problems of protecting the school's funds against dishonest, unethical, or careless handling by school personnel. Experience has shown that any precautions or guidelines used to protect public funds, as well as to protect the reputation of the people using them, will be effort well spent.

The Budget Calendar

School administrators realize that maximally effective budget building must be a continuous process. They recognize a need to follow a fairly specific budget preparation calendar. The details to be followed and the actual time to be assigned to budget preparation depend on the size of the school district, the number of employees involved in budget preparation, and the degree of difficulty encountered in obtaining three-sided balance in the budget triangle. Regardless of these factors, however, budget building should start as soon as the current budget is put into operation.

The fiscal year in most school districts starts on July 1. On the day the current year's budget begins, the superintendent starts planning for the next year. The details involved in the preparation of a new budget will not be the same in all districts, since the legal requirements and the number of staff members responsible for budget planning will not always be the same.

The budget calendar should be organized to include certain minimum requirements. Fixed dates, or at least suggested dates, should be predetermined for the completion of certain actions, such as when new program requests should be recommended, when required supplies and instructional materials should be reported, when the initial and tentative budget document will be presented to the board of education, and when and where budget planning and budget hearings will be held. Although the school district must follow whatever budget preparation requirements are written in the state code, other performance dates and deadlines are usually advisory and need not be followed to the letter if it seems in the best interest of the school district to deviate from them. Superintendents make serious mistakes if they procrastinate on budgetary preparation to the point where approaching deadlines interfere with conscientious budget-building practices.

Hack and colleagues outlined a budget calendar, with elements to be considered on a monthly basis throughout the fiscal year:

Month 1	Budget year begins
Month 3	Quarterly revision—to incorporate accurate revenue and enrollment figures (present budget)
Month 4	Population (enrollment) projections
	Staff needs projections
	Program changes and additional projections
	Facilities needs projection
Month 5	Staff requisitions—supplies
	Capital outlay preliminary requests
Month 6	Budget revisions (present budget)
	Central staff sessions on needs
	Maintenance and operations requests
Month 7	Rough draft of needs budget
Month 8	Meet with staffs and principals to establish priorities Citizen committees' reports and reviews
	Central staff and board of education budget sessions
Month 9	Budget revision (present budget)
Month 10	Working budget draft
	Meet with staff and community groups to revise working budget
Month 11	Final draft of working budget
Month 12	Budget hearings and adoption of working budget[8]

Though the new budget may begin on a specific date, in most districts, the previous year's budget is not concluded for the business office at that time. Accrued encumbrances as well as final reviews and reporting may extend involvement for several months into the new fiscal year. In essence, the budget process overlaps and includes operation of the current budget, finalizing the previous year's budget, and planning for the following year.

Budgeting at the School Level

At the building level, there is a need to follow sound budgetary and expenditure practices. With the large amount of revenue generated at the school level from athletic receipts, various fees, textbook rentals, bookstore operations, school food funds, field trips, weekly and scholastic readers, apportioned district funds, individual school fundraisers, and other kinds of funds that flow through individual schools, principals must understand financial information. After all, it is they who are the chief financial officer of a school, with primary responsibility for thousands or, in some cases, millions of dollars.

Appropriate handling of such funds must be in compliance with generally accepted accounting principles and federal-, state-, and district-mandated policies and procedures.

In basic terms, the principal must administer the budget by dividing the revenues from the expenditures.

> First, principals need to identify the sources of the funds received at their school. This may sound simpler than it really is. But this identification is important because the source of the funds determines how the funds are to be used and who is able to use them. For example, funds donated by supportive parents may have restrictions attached. Parents may indicate that the donated funds are to be used only for the school band where their child is a participant.
>
> Other restricted funds may include student fees paid by students for specific school programs or activities. These funds should only be used for the purpose for which the fees were collected. Revenues collected for student activities such as dances and athletic events need to be accounted separately so not to be co-mingled with funds from another school program.[9]

It is essential that all funds be recorded and deposited into one school account. Also, all funds should be processed through the principal's office, for it is the principal who carries the responsibility for school funds. Good practice suggests that individually signed prenumbered receipts be given to each person (or activity) who turns over funds to the school account. Thus, there is a record of the transaction at its base source. Deposits should be made daily, if possible, with a small cash drawer to handle change kept. Overnight security is difficult within a school building; it is seldom comparable to that of a banking institution. Copies of deposit slips should be retained by both the depositor and the school bookkeeper for the principal.

A specific notation must be made for every financial transaction that takes place. When there is an increase in funds or assets, it is added to the left side of an accounting ledger and is labeled a *debit.* When there is an expenditure, reduction, or decrease in funds or assets, the subtraction is made from the right side of an accounting form and is called a *credit.* Thus, for every entry, there is an increase or decrease in the available amount in the fund. When corresponding debits and credits are reconciled, the difference between the two columns is the *balance* of the account. In most schools these transactions are part of the school computer system controlling accounts.

The simplest school accounting form contains a single vertical line where increases (debits) are entered to the left of the line and decreases (credits) are entered to the right of the line. One such form is required for each activity that needs to be monitored (see Figure 12.2).

Flexibility is essential on the expenditure side of the ledger. Perhaps the senior class decides to sell a product to acquire money to purchase a gift to the school and they can save considerable cash if they pay as they order. A loan could be made to the class from the resources available, and the loan would be canceled when the sales receipts are received. Further, idle funds may be invested in safe short-term endeavors such as certificates of deposits or money market accounts.

One inflexible rule for school principals is that student fees and other receipts from current students must be used for the students who have paid them. It is imperative that student fees be expended in the school year in which they are collected. It is simply not fair to charge someone for something and then use to the benefit of some-

FIGURE 12.2 Sample School Activity Balance Sheet: Band Fund

Receipts (Debits)			Expenditures (Credits)			
Date	*Source*	*Amount*	*Date*	*Payee*	*Amount*	*Balance*
1/3	Previous Balance	$700.00				$700.00
			1/5	Photo Shop	$67.97	$632.03
			1/9	Post Office	$64.00	$568.03
			1/18	Post-its	$8.50	$559.53
1/19	Contributions for Trip	$75.00				$634.53
			1/20	Tour Company	$50.00	$584.53
1/21	Ticket Sales	$225.00				$809.53
1/31	Candy Sales	$340.00	1/23	Booster Buttons	$85.00	$1064.53
			1/24	Candy	$300.00	$764.53
						$764.53

one else. If student fee balances are carried over to the next year, then the fee charged was too much.

In a survey of the 50 states, conducted in 2000,[10] researchers identified 21 states that used fees for additional revenue, noting in many cases that the fees were used mainly for noncurriculur or required programs Charging fees is regressive in nature, discriminating against low-income families.

Monthly reports should be rendered, showing the opening balance on the first of the month, and receipts and expenditures and the closing balance on the last day of the month (see Figure 12.3 as an example).

FIGURE 12.3 Hypothetical High School Monthly Report

Activity	Beginning Balance	Receipts	Monthly Total	Expenditures	Balance
Band Fund	$344.70	—	$344.70	$19.50	$325.20
Cheerleaders	140.75	$10.00	150.75	50.74	100.01
Drama Club	234.50	65.55	300.05	100.02	200.03
Junior Class	1,239.85	320.00	1,559.85	59.85	1,500.00
Just Say No Club	8.32	112.50	120.82	12.16	108.66
Senior Class	2,583.99	55.40	2,639.39	339.15	2,300.24
Sophomore Class	678.90	10.00	688.90	244.45	444.45
Store	234.56	453.00	687.56	99.83	587.73
Varsity Club	100.00	—	100.00	12.00	88.00
Yearbook	2,567.00	—	2,567.00	1,914.08	652.92
					6,307.24

To make certain that the financial affairs of a school are in order, an independent, timely, annual audit should be conducted at the close of the school year or whenever there seems to be some inconsistencies in the fiscal operations of a school. The independent auditor should examine source documents and transactions in order to certify that all activities were conducted with generally accepted accounting principles and in accordance with authorized actions and legal requirements. An audit that is not done in a timely fashion is worthless.

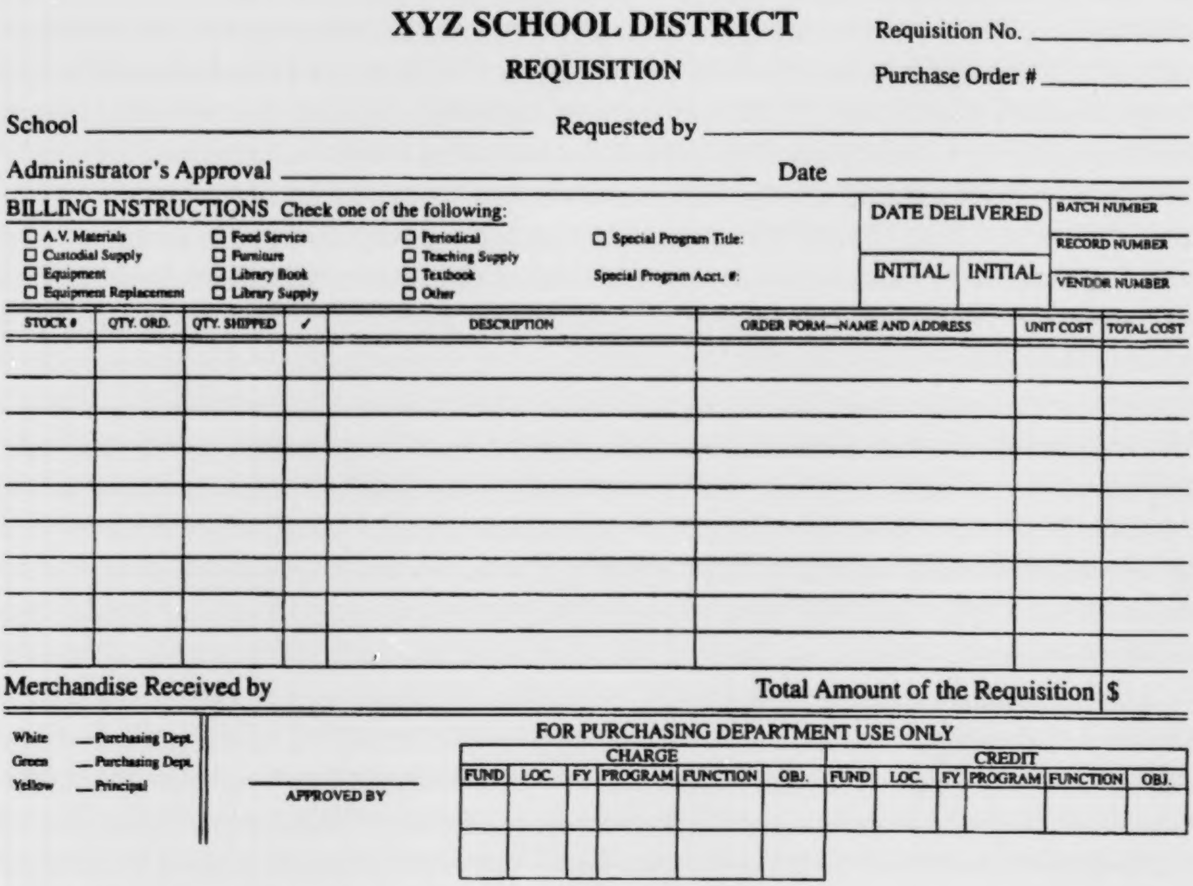
In summary, funds that are provided to the individual school must be handled properly. Such funds must be protected and verified by prudent use of purchase orders, reports, imprest fund utilization, and account flexibility. The money should be used for those who paid the fees, and timely annual audits should be conducted.

School/District Coordination

With the appointment to the position of principal comes the stewardship of a large institution. The extent to which financial information is understood by school principals is vital for decision making. As the chief financial officer of the school, the principal has the responsibility for thousands—and in some cases, millions—of dollars. Most principals have limited formal training in the principles of accounting for overseeing such a large financial operation. Outlining some of the budgetary responsibilities in the school setting, Willardson stated

> The variety in the kinds of funds that are used in schools adds to the complexity of determining where they stand financially. Funds that schools handle include those appropriated by federal and state programs that flow through the district to the schools; funds contributed from supportive donors; revenues received from such miscellaneous sources as vending machines, sale of supplies and materials, fines for parking, ticket sales for athletic and student activities; and monies collected from students for school lunches, textbooks and yearbooks. The appropriate handling of funds from these sources is important to insure compliance with generally accepted accounting procedures and with federal, state and board mandated policies and practices.
>
> Principals are not expected to be expert accountants. However, familiarity with some of the more common expected day-to-day responsibilities of school finance can help reduce a number of mistakes and can increase the principals' confidence in handling and resolving school finance problems.[11]

The business office of the district usually assigns a budget to the principal (school) on an annual basis. Funds are divided into various budget categories. Most districts have thorough procedures for tracking expenditures. At the school level, the purchasing process begins with a requisition from a staff member or originating with the principal (see Figure 12.4). Note the billing instructions (budget categories) at the top of the form. At the school level, the principal is responsible for determining the budget category for the expenditure. It is important for the local school administrator to carefully monitor budgets and make certain that items purchased are allowable in specific program. For exam-



XYZ SCHOOL DISTRICT

REQUISITION

Requisition No. ____________

Purchase Order # ____________

School ______________________ Requested by ______________________

Administrator's Approval ______________________ Date ______________________

BILLING INSTRUCTIONS Check one of the following:

☐ A.V. Materials
☐ Custodial Supply
☐ Equipment
☐ Equipment Replacement
☐ Food Service
☐ Furniture
☐ Library Book
☐ Library Supply
☐ Periodical
☐ Teaching Supply
☐ Textbook
☐ Other
☐ Special Program Title:
Special Program Acct. #:

DATE DELIVERED		
INITIAL	INITIAL	

BATCH NUMBER
RECORD NUMBER
VENDOR NUMBER

STOCK #	QTY. ORD.	QTY. SHIPPED	✓	DESCRIPTION	ORDER FORM—NAME AND ADDRESS	UNIT COST	TOTAL COST

Merchandise Received by

Total Amount of the Requisition $

White __Purchasing Dept.
Green __Purchasing Dept.
Yellow __Principal

____
APPROVED BY

FOR PURCHASING DEPARTMENT USE ONLY

CHARGE						CREDIT					
FUND	LOC.	FY	PROGRAM	FUNCTION	OBJ.	FUND	LOC.	FY	PROGRAM	FUNCTION	OBJ.

FIGURE 12.4 Sample Requisition Form

ple, certain equipment may not be approved in a particular federal program, or an audit may reveal that expenditures were not in line with board policy.

In some districts, principals may be authorized to send purchase orders directly to the vendor, with certain restrictions. Careful follow-up is necessary to see that the requested material has been received. The final stages of the purchasing transaction includes an invoice from the vendor, approved by the receiver and paid for with a check from the district or school, depending on whose budget the purchase is to be charged.

Computer programs have eliminated *hard copy* forms in many districts. A principal's budget, requisitions, purchase orders, delivery confirmation, and authorization for payment are all part of the school's network with the district business office.

In summary, these seven steps should be followed in the expenditure procedure in a district: (1) A requisition form should be utilized to begin the process. (2) When a request is made on a requisition form, the principal should designate the fund category. (3) A purchase order is generated and signed by the appropriate authority. (4) The purchase order is mailed to the vendor (see Figure 12.5). (5) When the article is received, it is accompanied by an invoice to be signed by the person receiving the material.

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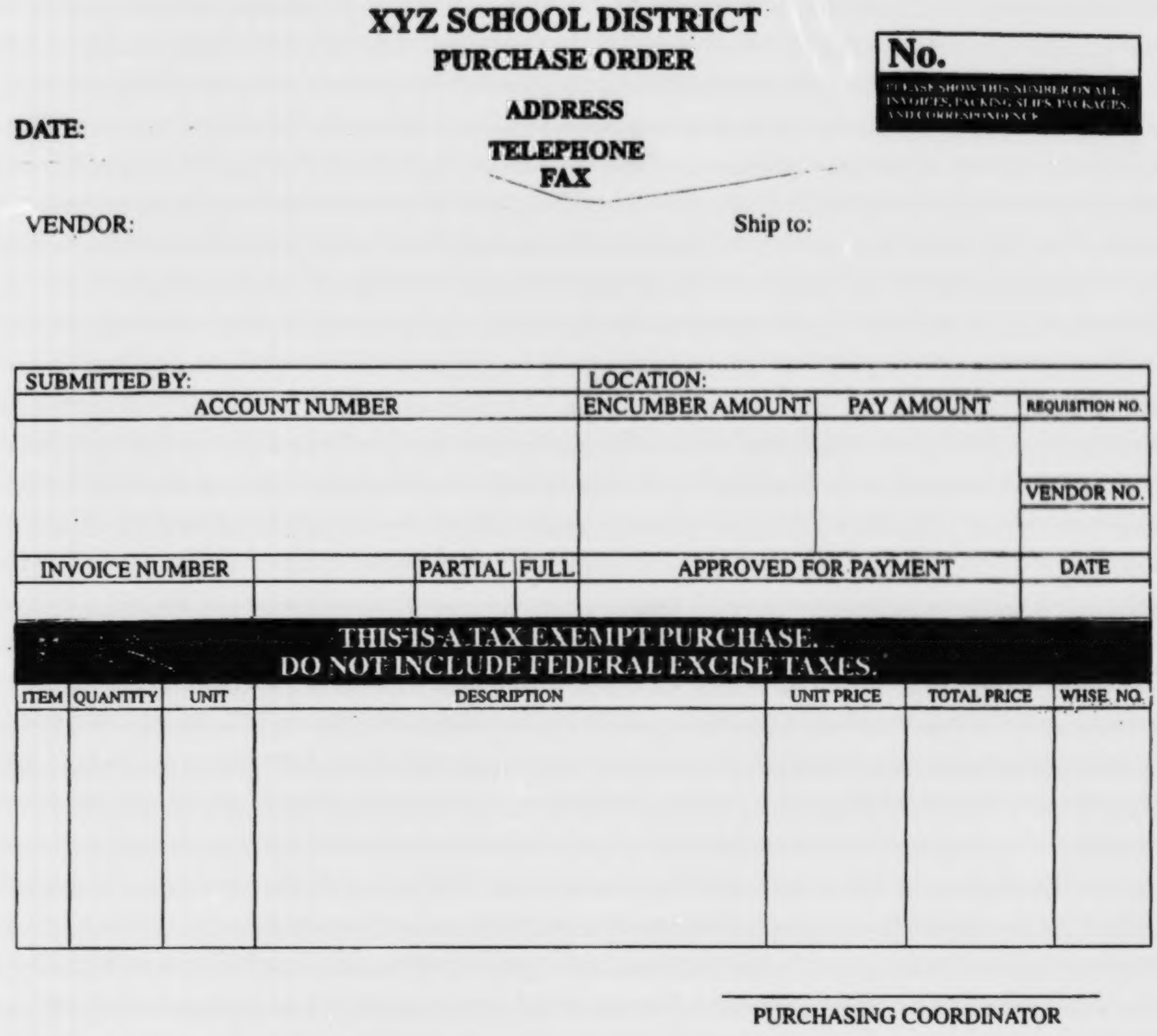

XYZ SCHOOL DISTRICT
PURCHASE ORDER

ADDRESS
TELEPHONE
FAX

No.
PLEASE SHOW THIS NUMBER ON ALL INVOICES, PACKING SLIPS, PACKAGES, AND CORRESPONDENCE

DATE:

VENDOR:

Ship to:

SUBMITTED BY:	LOCATION:		
ACCOUNT NUMBER	ENCUMBER AMOUNT	PAY AMOUNT	REQUISITION NO.
			VENDOR NO.

INVOICE NUMBER		PARTIAL	FULL	APPROVED FOR PAYMENT	DATE

THIS IS A TAX EXEMPT PURCHASE.
DO NOT INCLUDE FEDERAL EXCISE TAXES.

ITEM	QUANTITY	UNIT	DESCRIPTION	UNIT PRICE	TOTAL PRICE	WHSE. NO.

PURCHASING COORDINATOR

FIGURE 12.5 Sample Purchase Order Form

(6) Payment is made by check when the vendor submits the invoice to the school or district. (7) A copy of the purchase order, the invoice, and a copy of the check are filed together. With the canceled check, a good audit trail has been established, completing the transaction.

Since the handling and processing costs of a single purchase order may approach $25, it is not profitable to issue purchase orders for anything less than that sum. To facilitate small expenditures, a revolving imprest fund (approved by the board of education) of up to $250 should be maintained in the school for nominal purchases. The authorized person dispenses the funds upon request from the person who has or will soon pay cash for incidental expenditures. The purchaser provides a proof-of-payment

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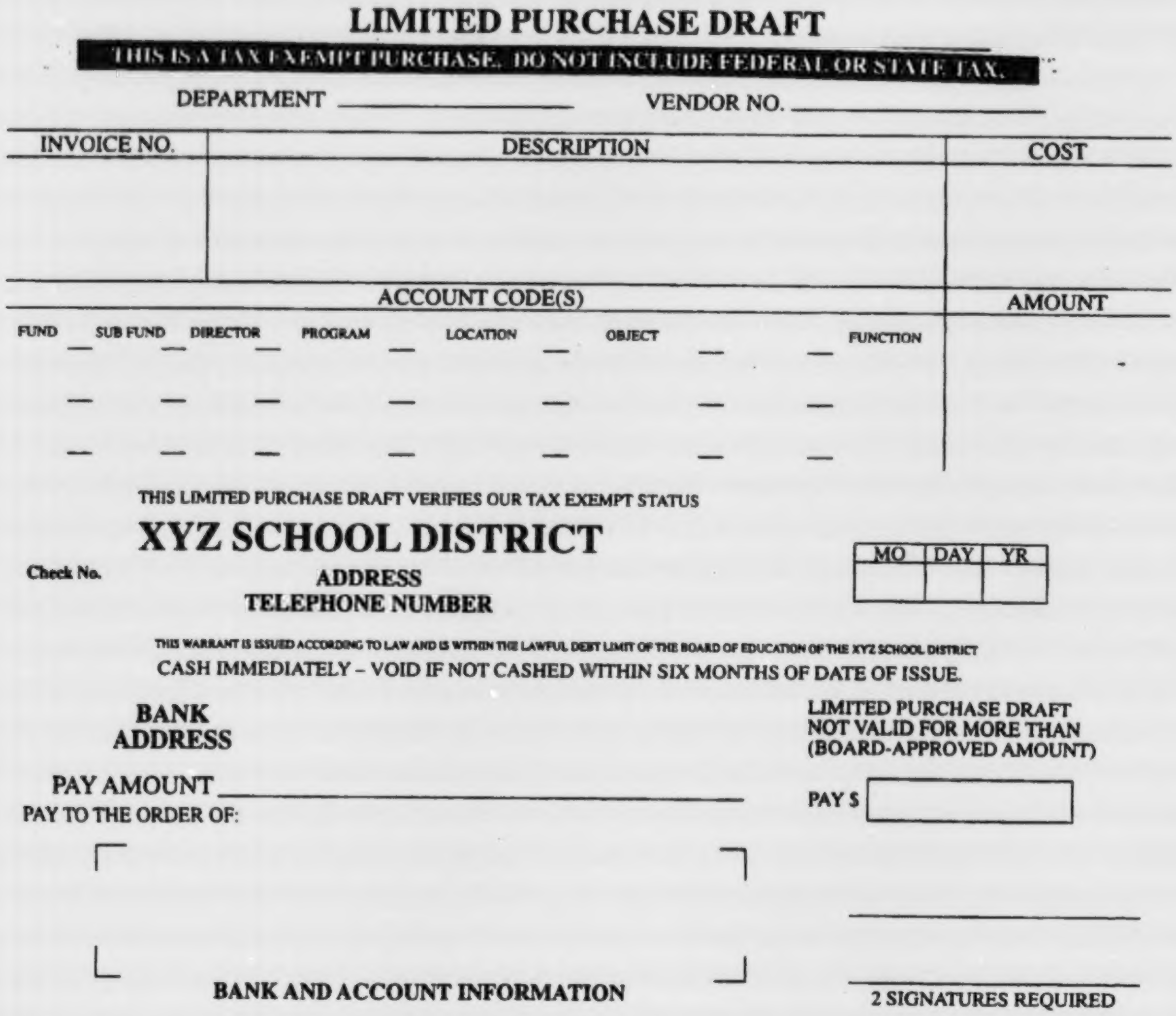
slip, which may be self-generated, but preferably provides a sales slip from the vendor. These numerous small transactions are then charged to the proper account. Funds revolve through the imprest fund to and from the appropriate account and should be carefully monitored.

Principals may have authority to write a district check for an amount not to exceed a prescribed figure (in the range of $300 to $500) that is charged to the school account. This approach may save money while still maintaining the integrity of the process. This *limited purchase draft* (see Figure 12.6) should require two signatures for the protection of the issuer. Though it is a commonsense issue with most administrators, it still is a caution that needs to be stated: ***Never mingle school funds with personal accounts.***

In the spring of the year, the principal may be asked to submit an *annual* order so that the district may pool all school requests to secure the lowest bid on materials, sup-



LIMITED PURCHASE DRAFT

THIS IS A TAX EXEMPT PURCHASE. DO NOT INCLUDE FEDERAL OR STATE TAX.

DEPARTMENT ____________ VENDOR NO. ____________

INVOICE NO.	DESCRIPTION	COST

ACCOUNT CODE(S)	AMOUNT
FUND __ SUB FUND __ DIRECTOR __ PROGRAM __ LOCATION __ OBJECT __ __ FUNCTION	
__ __ __ __ __ __ __	
__ __ __ __ __ __ __	

THIS LIMITED PURCHASE DRAFT VERIFIES OUR TAX EXEMPT STATUS

XYZ SCHOOL DISTRICT

Check No.

ADDRESS
TELEPHONE NUMBER

MO	DAY	YR

THIS WARRANT IS ISSUED ACCORDING TO LAW AND IS WITHIN THE LAWFUL DEBT LIMIT OF THE BOARD OF EDUCATION OF THE XYZ SCHOOL DISTRICT

CASH IMMEDIATELY – VOID IF NOT CASHED WITHIN SIX MONTHS OF DATE OF ISSUE.

BANK
ADDRESS

LIMITED PURCHASE DRAFT
NOT VALID FOR MORE THAN
(BOARD-APPROVED AMOUNT)

PAY AMOUNT ____________

PAY TO THE ORDER OF:

PAY $ ☐

BANK AND ACCOUNT INFORMATION

2 SIGNATURES REQUIRED

FIGURE 12.6 Sample Limited Purchase Draft Form

BEST COPY AVAILABLE

plies, and equipment. Larger districts with warehouse facilities are in a position to estimate needs and make purchases in large quantities and at times of the year that are most advantageous for purchasing.

Often, two yearly budgets may *overlap*. Some purchase orders may be issued late in the fiscal year and the materials or supplies may not be received and/or billed by the vendor and payment authorization given until several months after the new fiscal year has begun. These *encumbrances* can be confusing unless good records are maintained.

Systems of Budget Administration

To the casual observer, it would seem that budgeting is a simple process of calculating the costs of operating a projected educational program and then applying the legal provisions of state, local, and federal government laws and restrictions to determine the sources of revenue and the amounts obtainable to meet the anticipated expenditures. Such hit-and-miss procedures were common in the budgeting practices of school districts years ago. They involved little or no direct relationship between the objectives of the school program and the expenditures. Seldom were alternatives considered or found necessary. There was little consideration given to systematic analysis of the budget, and long-range budgeting practices were yet to be developed.

The development of theory in educational administration, with an emphasis on the study of administrative behavior, was accompanied by the beginning of what has become known as *systems analysis* (or the *systems approach*), a way of looking at the functions involved in administration. According to the AASA Commission on Administrative Technology, the beginnings of the systems approach can be traced to the first efforts to introduce science into the management of organizations; some crude efforts occurred at the beginning of the twentieth century.[12]

During the early 1950s, many of the leaders in educational administration became vitally interested in developing basic theories involved in the practice of their profession. New kinds of textbooks were written, and theory classes in school administration began to appear in the curricula of the graduate programs at many of the progressive colleges and universities. The rationale for this departure from the past was that research and practice in educational administration were too heavily involved with empiricism. The front-line thinkers in the field noted, rather apologetically and almost unbelievingly, that the discipline up to that point had almost completely ignored theory in the study and practice of school administration. In the 1960s, with the advancement of technology and the thrust for accountability, education administrators joined the movement to develop a systems analysis approach to planning the school program and linking it to developing the budget.

Systems analysis is a practical philosophy on how to assist a decision maker with complex problems of choice under conditions of uncertainty. It is a systematic approach to help a decision maker choose a course of action by investigating the entire problem, searching out alternatives, and comparing these alternatives in the light of their consequences, using an analytic framework to bring expert judgment and intuition to bear on the problem.

Formulation:	Defining the issues of concern clarifying the objectives, and limiting the problems.
Search:	Determining the relevant data and seeking alternative programs of action to resolve the issues.
Explanation:	Building a model and using it to explore the consequences of the alternative programs, usually by obtaining estimates of their cost and performance.
Interpretation:	Deriving the conclusions and indicating a preferred alternative of course of action. This may be a combination of features from previously considered alternatives or their modification to reflect factors not taken into account earlier.
Verification:	Testing the conclusion by experimentation. Rarely is it possible to carry out this step until a program is implemented. A program plan should call for evaluations that can provide after-the-fact verification.
Structuring of the problem, design of the analysis, and the conceptual framework:	The correct questions must be asked and the problem must be properly structured. The objectives of the policies and programs must be clearly stated in policy terms, the relevant population must be defined, and the alternatives for evaluation must be selected. The two principal approaches are the *fixed output approach,* where the analyst attempts to determine which alternatives (or combinations thereof) are likely to produce the highest output within the given budget level.

Planning/Programming/Budgeting Systems

The United States Department of Defense introduced and applied some aspects of systems analysis to certain difficult problems, with the purpose of facilitating a much more precise evaluation of the outcome of programs. The success of the process prompted other government departments to institute similar planning techniques. The concept was the planning/programming/budgeting system (commonly referred to as PPBS).

A planning/programming/budgeting system is an integrated system devised to provide administrators and other school staff members with better and more objective information for planning educational programs and making choices among the alternative ways for spending funds to achieve the school's educational objectives. Some advocates of the system who felt that *evaluation* was not stressed sufficiently added an *E* to the acronym, making it PPBE. The Association of School Business Officials was not yet satisfied with the designation and substituted ERMD (educational resource management division), which it felt was more descriptive of this approach to budgetary planning.

The PPBS is a way of extending the planning period and duration of a program budget, often for five or more years. Its chief thrust is in the direction of replacing broad, traditional objectives with specific, measurable ones. It involves a cycle in planning that includes (1) establishing objective goals, (2) determining the financial cost of alternative plans for reaching the objectives, (3) evaluating the results, (4) improving the objectives, and (5) adding to and improving the alternative plans to reach the revised objectives.

Zero-Base Budgeting

Just as many serious reform efforts were made in the 1970s to improve school finance formulas to meet the standards of *Serrano* and other court rulings, so were efforts made to improve budgeting practices in school districts. In addition to PPBS, a budgetary plan known as zero-base budgeting (ZBB) has been developed. Although the idea of planning a budget from zero has existed for more than a century, it was little used until the 1970s, when Peter A. Phyrr began writing about it. The idea soon gained a degree of popularity, particularly in Texas, Georgia, and New Mexico. The concept received widespread attention when Jimmy Carter, running for the U.S. presidency, proclaimed that he would use ZBB techniques in developing the federal budget. The one cardinal principle for ZBB is that nothing is sacred. Every program, if it is to receive continued funding, must be justified during each budget development.[13] There is no standard or universally accepted definition of ZBB. The following two definitions represent the general and the specific approaches:

> Perhaps the essence of zero-base budgeting is simply that an agency provides a defense of its budget request that makes no reference to the level of previous appropriations.[14]
>
> Zero-base planning and budgeting involves decision making from the lowest levels of management to the top. Managers are required to analyze each budget item—whether already existing or newly proposed—so that the starting point for the development of the budget is zero.[15]

Zero-base budgeting is a rational budgeting approach. It is more of a decision-making process than a complete resource allocation system. It works bottom-up from basic organizational activities, rather than top-down from organizational goals and objectives. Developed for industry and adapted for use in the public sector, ZBB emphasizes identifying, ranking, and choosing alternatives.[16] There are several advantages of this type of budgeting, including involvement of staff members, the requirement of annual evaluation of all programs, accurate determination of programs, and the development of priorities with alternatives. The critics of the zero-base system point to the great amount of paperwork involved, the need for more administrative time in the preparation of the budget, and the feeling that the system is too complicated and thus too impractical for small school districts.

Site-Based Budgeting

Site-based budgeting (SBB) is a concept of developing a district budget through the involvement of teachers, community, and administrators at the school level. Gaining support in the 1980s, the process provides an opportunity for the school staff to assist in building a budget that will have an impact on the final decisions made by the board of education. It is a decentralized system of providing revenues for instructional supplies, materials, equipment, texts, and library books and, in some districts, is extended to salaries for teachers, aides, and custodians. Some schools using SBB techniques analyze student needs in relation to teaching resources and may have the latitude to purchase the services of two teacher aides in place of one certificated teacher. Such a degree of decision-making power is not always possible because of union or association influences, but it does demonstrate the flexibility possible in a site-based budget process.

To be effective, SBB requires that principals and staff be able to match student needs with available resources. It is not simply a matter of providing a principal with an amount of money based on the number of pupils in the building, to be spent in three or four categories at the school level rather than at the district level. The employees in the building must be a part of the planning and must recognize cultural, ethnic, and socioeconomic factors that may influence student needs and then establish priorities and budget to meet those needs.

District office administration assumes a different role in the preparation of site-based budgets; central administrators become facilitators to the staff and community at the school level. Budgeting for administration, capital outlays, and maintenance costs usually remain a district responsibility, because of the need for large expenditures on particular projects. A new roof on an older building, for example, may take a large share of the district's total maintenance budget in one year. Lausberg summarized the responsibility by indicating that the

> purpose of site-based management is to give the principal and instruction staff more control over budget, personnel, and organization at the school level. The concept's objectives are: greater involvement in decision making, less imposition of state or district level rules which restrict creativity or school level choices, and the development of innovative instructional methods which will ultimately improve educational results and public acceptance of school performance.
>
> Site-based management often gives authority to principals to move funds within a total school allocation among line items in the budget.
>
> The role of the central office, whether it be in instruction, personnel, or business, shifts to one of balancing district-wide standards with local decision making, and providing training and support to school-based decision makers. It means sharing responsibility for many services formerly centrally controlled by the business office or other central office departments.[17]

Essentially, proponents of site-based management contend that schools will be improved because it:

- Enables site participants to exert substantial influence on school policy decisions,
- Enhances employee morale and motivation,
- Strengthens the quality of schoolwide planning processes,
- Fosters the development of characteristics associated with effective schools, and
- Improves the academic achievement of students.[18]

Strategic Planning

Patterned after a technique used in business and industry, educators have utilized a process of planning that has an influence on the school budget. Strategic planning is an approach to setting district goals for a three- to five-year period. Involvement includes a broad segment of the community that is brought together for intensive training and decision making that may cover two to five days. A mission statement is designed, belief statements may be outlined, and goals or vision statements are defined for the district. Action teams may be organized to refine the goals and prescribe strategies for achieving them. Finally, the board of education is required to adopt the plan to complete the process.

Planning is an integral part of the budget sequence. As with other approaches, the goals and outlined action recommendations usually exceed potential revenues, and priorities need to be determined. Too often, the budget covers the basic program and many action plans are put on hold.

Total Quality Management

Total quality management (TQM) has been suggested as a basis for achieving excellence in schools. TQM is an opportunity to conceptualize a systematic change for school districts. School board members, administrators, teachers, support staff, parents and students meet on a peer level to reach consensus about a shared vision of excellence. In most organizations, the practice is to wait for decisions from the top. The TQM process requires the total organization to take the authority and the responsibility. Through brainstorming and discussion, the group develops a statement of the problem that is clearly understood by all its members (see Figure 12.7).[19]

The group task force collects specific data necessary to analyze a problem. Findings are then reduced to a format that allows the task force to recommend solutions. In a nonevaluative fashion, a list of many possible solutions is produced. Selecting and planning the optimum solution is done to plan the implementation. Implementing the solutions involves coordinating, assigning, monitoring, measuring, and developing action commitments. Control systems are established to monitor progress, collect data, and help contingency plans evolve. Then solutions are evaluated to determine any discrepancy between the actual and the desired results. The step involves reporting on what has been accomplished, tracking and monitoring the solution to verify its suc-

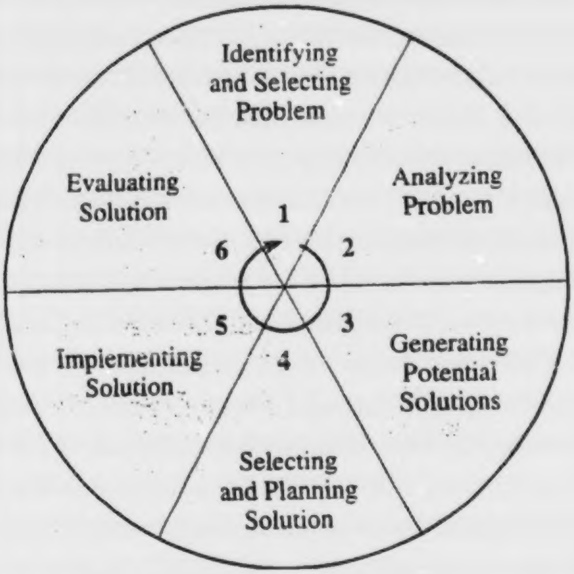

Identifying and Selecting Problem
Analyzing Problem
Generating Potential Solutions
Selecting and Planning Solution
Implementing Solution
Evaluating Solution
1
2
3
4
5
6

FIGURE 12.7 A Problem-Solving Wheel

Source: "Implementing TQM in Maintenance and Operations" by Lois Mastro and Frank Kerwin, November 1993, *School Business Affairs*, page 33. Copyright 1993, ASBO International. Used by permission.

cesses and setbacks, and determining if the solution met the original requirements. If the decision is judged to be successful, it becomes fixed in the process.

Challenge of Leadership

Each alternative—PPBS, ZBB, SBB, Strategic Planning, TQM, or other procedures—use common elements of analysis. These components are:

- *Objective(s).* Systems analysis is undertaken for the purpose of suggesting or helping to choose a course of action, which, in turn, must have an objective or an aim. Policies or strategies are then examined and compared, based on how efficiently and effectively they can accomplish the objective.
- *Alternatives.* These are the different programs or means by which the objective or objectives can be attained.
- *Costs.* Each alternative requires the use of specific quantities of resources which, once committed, cannot be used for other purposes.
- *Model(s).* These are representation of the situation under study designed to predict the resource inputs into a system, the effectiveness outputs, and, ideally, their relationships to each alternative. It is an abstraction of the relevant characteristics of the situation.
- *Criterion (Criteria).* These rules or tests for the selection of one alternative over another provide a method for ordering the alternatives, using their costs, and measuring their effectiveness.

No single budget format dominates and no fiscal innovation lies ahead. Many superintendents are wisely incorporating the best elements of recent budget concepts: budgeting that is more responsive to local needs and does not highlight a particular acronym or fad. The leadership challenge is to develop the best possible budget process and document that which will convey to the board and community what is needed and why.

Summary

Historians report that budgetary practices originated and underwent early development in England. In the United States, budgeting became common in business and industry before its use in the public schools. The first law providing for a national budget was passed in 1921; the practice has improved steadily since that time.

The term *budget* has many definitions. The process of budgeting involves planning, receiving, and spending funds, and evaluating results in a specified time frame—usually one year. Its purpose is to define the district's educational plan, determine the source of funds, and specify how revenues are to be expended. The budget document provides a guide for evaluating the school program and serves as a way of keeping the public informed about the activities of the school.

The superintendent of schools should administer the budget, and the school board has legal authority for its formal adoption. The budgeting process should be continuous and provide for citizen review and appraisal. In preparing the budget, the superintendent should work with the entire school staff in order to provide an instrument that reflects the goals and objectives of the district.

The principal, as the chief financial officer at the individual school level, should establish a basic two-sided budget and ledger sheet with receipts (debits) on the left side and expenditures (credits) on the right. Generally accepted accounting practices should be used. An imprest fund is an excellent procedure at the school level. Flexibility should be used, monthly reports prepared, and annual independent audits conducted.

The systems approach to budgeting has gained some recognition in the field of education. Systems analysis is a practical philosophy on how to assist decision makers in choosing a course of action by investigating their entire problem.Various program budgeting procedures are being used by schools. Planning/programming/budgeting systems (PPBS) is one such method that provides school personnel with better and more objective information for planning programs; it offers alternative ways for spending funds to achieve the school's educational objectives.

The systems approach is another technique for budgeting. Its main disadvantage is the difficulty and the amount of time required to establish such a system in small districts, where the number of qualified staff members to operate the programs effectively is limited.

During the 1970s, a budgetary plan known as zero-base budgeting (ZBB) emerged. This method requires justification of every program each time the budgeting process is redone. Its chief advantages are the involvement of nearly all staff members, the requirement for an annual evaluation, and the development of priorities with alternatives.

Site-based budget planning (SBB) involves teachers, community, and principals at the local school level. In a decentralized way, it provides funds for supplies, materials, equipment, texts, and library books and sometimes salaries for teachers, aides, and custodians. Principals need to redefine their roles as they assume a leadership position in coordinating efforts of the staff and community in assessing students, establishing priorities, and developing a budget designed to meet the students' needs.

Strategic planning and total quality management (TQM) are techniques that have an influence on the school budget. As with other approaches, the goals and outlined action recommendations often exceed potential revenues, making it necessary to prioritize, then putting some action plans on hold. Each alternative uses common elements of analysis—objectives, alternatives, costs, model(s), and criterion (or criteria).

ASSIGNMENT PROJECTS

1. Provide a definitions for each of the following terms: *budget, revenue, expenditures, receipts, PPBS, zero-based budgeting, site-based budgeting, strategic planning, TQM, system analysis.*
2. Interview the business manager of a school district and report on the budgetary changes that have taken place in the last few years. Is an accounting system required by the state? What effect has the use of computers had on school district accounting and budgeting practices?
3. Determine the state requirements for local school district budgeting in your state.
4. Compare the budgetary responsibilities of a school superintendent in a small school district with those of a superintendent in a large school district.
5. Write a paper suggesting ways for school superintendents and boards of education to inform school patrons about budgetary practices.
6. Interview teachers and other school personnel about their involvement in the budgetary process. What information do they give regarding needs and desires for next year? Do they want to be more involved? Less involved? Do they understand how priorities are set and budget decisions made?
7. Prepare a presentation for a new superintendent and newly elected school board about budgetary practices. Outline their responsibilities. How should other school personnel and patrons be involved?
8. Prepare a paper describing the pros and cons in determining a school district budget when the district is committed to a site-based management approach.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER 13

Accounting and Auditing

It is the duty of those in education, entrusted with the fiduciary responsibility of spending taxpayer funds, to make absolutely certain that hard-working citizens are getting their monies worth. Educators must strive to do this by keeping complete, accurate and transparent financial and accounting records.

—James B. Heredia, 2001

Schools are maintained for the purpose of providing a high-quality educational program. This means that they are operated to spend money—but it must be spent for the right purposes. Getting maximum benefits for the money expended, rather than saving money, is the function of the business administration of a school district. Certain key concepts are associated with this responsibility, such as economy, judicious spending, honesty, protection of property, and protection of individuals.

In addition to the responsibility the school has for spending money wisely to provide high-quality education, it has the challenge of protecting school funds and property and the reputation of those involved in disbursing school dollars. There is little to question or to criticize when there are accurate and verified financial records of a school's operations. On the other hand, shoddy or inadequate records can serve to impugn the actions of those in charge, even where there has been no dishonest intent.

Everyone accepts in principle that the business of education, which is the largest and most important in the nation, should use the best possible system of collecting, expending, and accounting for the large sums of public money required. Yet the history of accounting for such funds, especially at the site-level unit of organization, has not been a particularly outstanding one. Far too many examples of shoddy practices and even malfeasance have been brought to light. Such malpractices have done much to cause states and local school districts to require better accounting systems with stronger guidelines and appropriate legal requirements for operating school business.

The School Accounting System

Efficiency and effectiveness in school financial practice require a sound system of accounting for income and expenditures. Permanent records of all financial transactions are an integral part of a system of reporting the reception and disposition of public funds. The legality, quality, and effectiveness of the administrating staff and the school board's stewardship of all funds are documented and supported by accounting records. Questions of propriety in the handling of public funds can be cleared up by the records that are kept of the funds at the disposal of a school district. Thus, a system of accounting, which was once something of a luxury in some small school systems, is now a practical necessity in all schools.

Purposes

One of the main purposes of an accounting system for a business in the private economy is to determine its fiscal condition. Determining whether a company has made a profit or a loss, and how much, is fundamental to good business operations. Without such information, determination of dividends or profits or losses to stockholders cannot be made. Since schools are in the public sector, however, they have no concern with the profit motive. Their goal is to provide valuable services for their clientele. For what purposes, then, does the school utilize accounting principles? What values will it receive by establishing a modern accounting system? In brief, a school district employs an efficient accounting system in order to:

1. Protect public funds from the possibility of loss due to carelessness, expenditure for the wrong purpose, theft, embezzlement, or the malfeasant actions of school officers.
2. Provide a systematic way to relate expenditures to the attainment of educational objectives through the operation of a budget and related reports and processes.
3. Provide an objective method of appraising the performance of school personnel in attaining the school's objectives.
4. Meet the legal requirements of the state and other governmental units for reporting basic information for comparisons, reports, and reviews.
5. Provide local school patrons with important information concerning the fiscal and academic activities and needs of the district.

The Governmental Accounting Standards Board emphasized:

> Accountability is the paramount objective of governmental financial reporting—the objective from which all other financial reporting objectives flow. Governments' duty to be accountable includes providing financial information that is useful for economic, social, and political decisions. Financial reports that contribute to these decisions include information useful for (a) comparing actual financial results with the legally adopted budget, (b) assessing financial condition and results of operations, (c) assisting in determining compliance with finance-related laws, rules, and regulations, and (d) assisting in evaluating efficiency and effectiveness.[1]

Principles

The business of school administration is to receive, spend, and account for taxpayers' dollars for education in the most effective and efficient way, in order to produce maximum educational benefits at minimum cost. Clearly, financial management of the schools is a means to an end, but that does not minimize its importance. Schools cannot achieve their instructional goals without the wise expenditure of public funds. Prudent disposition of funds requires that responsible school personnel adhere to generally accepted principles of school accounting.

School accounting practices and principles have evolved during the history of school operation in this country. The modern accounting system in a typical large school district today bears little relation to the unstandardized system used in school districts of an earlier era.

The National Committee on Governmental Accounting developed a number of standard principles and procedures for governmental accounting that have general application to schools. Consider the following:

1. Ensure compatibility with legal requirements.
2. Use the double-entry and general-ledger accounting system.
3. Use uniform terms and standard classifications.
4. Use as few different funds as possible, within legal and accounting requirements.
5. Make "a clear segregation…between accounts related to current assets and liabilities and those relating to fixed assets and long-term liabilities."
6. Use the budgetary control principles.
7. Use the accrual basis of accounting.

The Governmental Accounting Standards Board stated:

> Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.[2]

In spite of recommended principles and attempts to standardize practices, variations appear in every school accounting system. Administrators use those accounting procedures that will help most in implementing and accounting for the school's program. There are, however, certain general principles that may be applied to form the basis for an adequate and effective accounting system in every school.

1. *Accuracy.* There is little value in an accounting system that is not accurate. Audits are useful in discovering and reporting errors, but they are a very poor substitute for original accuracy. More than an absolute minimum of errors not only make financial reports ineffective or useless but may jeopardize the reputation of the administration or ruin the positive image that the school business administrator may otherwise have created.

2. *Completeness and currency.* Incomplete records of transactions and accounting records that are out of date provide little help to the superintendent when following a budget, explaining a fiscal transaction, or defending future budgetary allocations or expenditures. Any information that the administrator or the school board needs should always be readily available. The actual fiscal condition of the school district should be known at all times. Regular reports of income, expenditures, encumbrances, unencumbered balances, and other useful kinds of information should be made periodically.

3. *Simplicity.* School accounting practices and procedures are intended to provide information to administrators, school boards, the state, and local citizens. They are valuable if understood and worthless if not. Simplicity is therefore a necessity in school accounting practices. Their purpose is to explain to a relatively unsophisticated clientele what the school has done, how much it cost, where the money came from, and what the fiscal condition of the district is at any particular time. There is no intent to deceive or confuse anyone by extremely complicated accounting systems or professional jargon in explaining the district's expenditures or other transactions.

4. *Uniformity.* Comparisons of costs between school districts are misleading unless the items being compared are uniform and to some degree standardized. Account classifications and funding practices must be the same in all types of districts if comparisons are to be valid and useful. State reports sent to the U.S. Department of Education must be made with sufficient uniformity to make them useful for such purposes.

Standard Accounting Practices

The United States Office of Education exerted a leading role in establishing recommended practices in school accounting. Handbooks in 1940, 1948, and 1957 led the way in promoting uniformity in reporting school financial transactions. The 1957 handbook was particularly important in this regard. It was "the product of the cooperative efforts of five nationwide education associations and the Office of Education over a period of more than two years. Hundreds of individuals constituting a broad cross section of American education shared in its development."[3] The committee preparing the handbook selected items that provided information based on four criteria: (1) importance to a local district in the operation of its school system, (2) importance to local school districts throughout the country, (3) need for financial comparisons among local school districts, and (4) information that can be maintained as a record with reasonable effort.

The U.S. Office of Education suggested that universal use of the standard accounts and terminology of the 1957 handbook would:

1. Help ensure appropriate initial recording of financial data.
2. Improve the accounting for school funds.
3. Improve school budgeting.
4. Establish a sound basis for cost accounting.
5. Improve the accuracy of local, state, and national summaries.

6. Facilitate comparisons of financial information among communities and among states.
7. Enable local and state educational authorities to obtain more suitable information for policy determination.
8. Improve the accuracy of educational research.
9. Facilitate and improve reliable reporting to the public on the condition and progress of education.

The 1957 handbook recommended the use of 3 chief receipt accounts: Revenue Receipts, Nonrevenue Receipts, and Incoming Transfer Accounts. It also suggested the use of 14 important expenditure accounts: Administration, Instruction, Attendance Services, Health Services, Pupil Transportation Services, Operation of Plant, Maintenance of Plant, Fixed Charges, Food Services, Student Body Activities, Community Services, Capital Outlay, Debt Services, and Outgoing Transfer Accounts.

There have been various revisions of the handbook. The most recent edition, *Financial Accounting for Local and State School Systems,* lists the following revenue and expenditure classifications:

Classification of Revenue and Other Fund Sources		*Classification of Expenditures*	
1000	Revenue from local sources	100	Regular Program, Elem/Secondary
2000	Revenue from intermediate sources	200	Special Programs
3000	Revenue from state sources	300	Vocational Programs
4000	Revenue from federal sources	400	Other Instructional Programs, Elem/Secondary
5000	Revenue from other sources	500	Nonpublic School Programs
		600	Adult/Continuing Education Programs
		700	Community/Junior College Education Programs
		800	Community Services Programs
		900	Enterprise Programs
		000	Undistributed Expenditures

Many governmental agencies, including state departments of education and local districts, have relied on the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*[4] as a guide to accounting practices. Unlike *Financial Accounting for Local and State School Systems,* account codes and budget categories are not specified. Most states require local education agencies to use uniform budgeting and accounting procedures and expect conformity with generally accepted accounting principles (GAAP). The account code structure is designed to serve as an efficient coding facility and basic management tool and to establish a common language for reporting the financial activities of a school district.

The Governmental Accounting Standards Board is a private organization administered by the Financial Accounting Foundation, which oversees the operations of standard setting in the private and public sectors. An excellent overview of the historical development of GASB and the update of new standards and exposure drafts is included in *Governmental GAAP Guide: A Comprehensive Restatement of Current Promulgated Governmental Generally Accepted Accounting Principles for State and Local Governments* by Bailey.[5]

Various policy *statements* from the Governmental Accounting Standards Board have been issued to government entities, including school districts, since 1987. The GASB indicated that through extensive due process they have identified "what we believe are the most important objectives of financial reporting by governments."[6] The Preface of *Statement No. 34* (1999) noted "This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information that governments have presented in the past."[7] The requirements for activating the statement plan is based on the annual revenues of the individual government body. The effective date for compliance is as follows:

1. Governments with total annual revenues of $100 million or more were required to implement the program for periods beginning after June 15, 2001.
2. Governments with at least $10 million but less than $100 million apply the program for periods beginning after June 15, 2002.
3. Governments with less than $10 million revenues apply the *Statement* for periods beginning after June 15, 2003.[8]

For purposes of school finance, *Statement 34* includes state offices of education, local school districts, public higher education, and any other public education organization that receives federal funds.

The new GASB model "can best be described as evolutionary. It builds on fund-based information that has been provided in the past with a fresh look, and it adds more information from an overview vantage point through requirements for management's discussion and analysis (MD&A) and governmentwide financial statements."[9] The standards required in the model make comparison of the common core of data provided the National Center for Educational Statistics more accurate and meaningful.

The Use of Clearing Accounts

School accounting systems provide for clearing accounts (revolving funds) in order to avoid distorting receipts and expenditures when there is a double handling of money. The practice involves receiving money from the operation of some activity (student-body activity or food services, for example) and then spending it for the same activity at a future time. If "Receipts" is credited when the money is received and "Expenditures" is charged when the money is spent, both accounts have been increased beyond their true state; the books do not then show either account as it actually is. For example, if a school district spends $500 to set up an account for a particular purpose and then is repaid the $500, it is as if nothing has happened as far as "Receipts" and "Expenditures" are concerned. Neither account should be increased by $500, but the transaction should be shown through a clearing account. If, however, the activity does not repay the $500, such amount must be charged to the appropriate expenditure account. Clearing accounts make it possible and convenient to report the complete story of transactions involving the double handling of money without involving the "Receipts" and "Expenditures" accounts.

Transactions under clearing accounts include (1) activities financed wholly or in part by revenue produced by the activity, (2) prepayments or advancements, (3) abatements, (4) exchanges of one asset or liability for another asset or liability, (5) interfund transfers, (6) current loans, and (7) insurance adjustments.

Encumbrance Accounting

Encumbrance accounting is important to any budgetary system. An encumbrance represents a commitment related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources.[10] As soon as some action involving future payments of money is made, the proper account should be encumbered by that amount. Without such an up-to-date record, the administrator may not always remember when the cash balance of a particular account has already been committed to another purpose. Encumbrance accounting serves the purpose of keeping the administrator informed concerning expenditure commitments. It is a necessary part of the accounting system of every school district. Proper use of this accounting device will not only help to keep the accounts in balance, but may save the administrator from the embarrassment that accompanies a second expenditure of money from an account that has already been depleted by a previous obligation.

The GASB provides the following summary for accounting and reporting encumbrances:

> a. Encumbrance accounting should be used to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control.
> b. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.
> c. If performance on an executory contract is complete, or virtually complete, an expenditure and liability should be recognized rather than an encumbrance.
> d. Where appropriations lapse at year-end, even if encumbered, the governmental unit may intend either to honor the contracts in progress at year-end or cancel them. If the governmental unit intends to honor them, (1) encumbrances outstanding at year-end should be disclosed in the notes to the financial statements or by reservation of

fund balance, and (2) the subsequent year's appropriations should provide authority to complete these transactions.

e. Where appropriations do not lapse at year-end, or only unencumbered appropriations lapse, encumbrances outstanding at year-end should be reported as reservations of fund balance for subsequent year expenditures based on the encumbered appropriation authority carried over.[11]

Encumbrance accounting is so important that some states require it of all school districts, although some allow year-end reports either with or without encumbrances included.

Cost Accounting

Cost accounting has been an important element in business institutions for a long time. Although it is used to some degree in most larger school districts, the practice has never reached great popularity in smaller ones. The argument that it is not needed in schools because the profit motive is lacking holds little weight, for all schools are faced with the necessity of getting the greatest possible benefit out of the least possible expenditure.

Cost accounting provides the necessary information to answer a number of pertinent questions concerning various aspects of the school program. What are the relative costs of various programs—for example, the athletic program as compared with the physical education program? What is the cost (loss in state allocations of money) due to nonattendance of pupils? How do the costs of elementary education compare with those of secondary education? Speculation concerning the comparative costs of programs is of little value, but judgments based on the expenditures may produce the evidence necessary to evaluate them more objectively.

The business of education requires sound judgment in decision making. Fortunate indeed are school administrators whose accounting system provides the information necessary to allow them and the school board to make decisions on the basis of adequate, reliable, and relevant facts and figures from a cost accounting system. No other basis can be considered as valid.

Cost accounting has two primary values: (1) It provides information for in-school choices and decisions in the expenditure of funds. (2) Costs for the same services can be compared with those of other schools. Too often, school personnel have seen the importance of this factor but have failed to recognize that the potential in-school values of cost accounting exceed those that might come from comparisons with other school systems.

Accrual Accounting

The accrual basis is the superior method of accounting for the economic resources of the local education agency. "It results in accounting measurement based on the substance of transactions and events, rather than merely when cash is received or disbursed and thus enhances their relevance, neutrality, timeliness, completeness, and comparability."[12] The essential elements include (1) deferral of expenditures and amortization of deferred costs, (2) deferral of revenues until they are earned, and (3) capitalization of long-term expenditures and the subsequent depreciation of these costs.[13]

Some of the advantages of accrual basis accounting include:

- providing a comprehensive measurement of financial position and results of operations;
- providing accountability for individual assets within the accounting system at the earliest appropriate date;
- providing comparability from period to period; and
- reducing management's ability to control cash flows in such a way as to produce financial statements that will seem to present financial position and results of operations in either a more optimistic or more pessimistic context depending upon management's particular preference at the end of any given fiscal year.[14]

Computerized Accounting Systems

Most school districts have entered the computer age by purchasing sophisticated equipment that provides many services beyond business management. Software packages now provide the user with word processing, electronic spreadsheets, electronic filing, purchasing capabilities, e-mail, on-line subscription services, pupil accounting, inventory records, and many other administrative tools for convenience and assistance in decision making.

There was a concern for a few years that the costs of computer equipment and related software would make it impossible for small school districts to join the technological revolution. However, continual development of better equipment and software and the highly competitive market have lowered costs until even the smallest district can benefit from data-processing equipment in managing its business affairs. Some states make available regional or central mainframe computers that local districts can tie into by purchasing relatively little equipment and leasing telephone lines to the main computer. Some districts share expenses in purchasing a system, and in some cases, districts have leased time from private services.

Computers can be purchased for minimal expense, with accompanying software designed to meet most state regulations and reporting requirements. Such equipment will soon pay for itself through reduction of labor costs and improved efficiency in operations. The complex, often confusing, time-consuming tasks associated with business affairs can now be handled in even the smallest district through the use of computers.

Special consideration should be given to service contract costs, service availability, and program compatibility. Kory emphasized that districts must plan when determining their information systems:

Districts should prepare for these investments by developing an overall architectural plan for their information systems. This is a long-term capital activity, just like any other infrastructure investment. As such, this plan should anticipate both future technological trends and district management objectives.

It is critically important that the time horizon in such a plan be long enough to ensure accurate analysis, to support effective decisions and to create realistic expectations. For large districts this investment will seem enormous compared to any such systems investment in the past. The implementation cycle will, at a minimum, be several years.[15]

Receiving and Depositing Funds

The school accounting function begins with the receipt of funds from the taxing agency that allocates funds to local districts, as well as from local collections (e.g., fees, tuitions, and interest). There must be agreement between the instruments showing receipt of funds and the amount of such monies received.

The typical school board has control of its own budget and has custody of its funds. Local property taxes are usually collected by a county tax collector who transfers the rightful share to the school board treasurers in the county. The school board treasurer deposits tax warrants, state allocations, and all other school district funds in the bank (or banks) that the school board has designated as its depository.

The school board uses the same criteria for the selection of a depository for its funds as an individual would use when establishing a personal account. Many boards find it advantageous to accept bids from various banks when a selection for services is being made. Quality of service, financial standing, convenience to the board, interest rates, and the integrity of bank officials are some of the most important factors to be considered when selecting a bank.

Expending School Funds

General authorization for the expenditure of funds comes from the budget and the minutes of the board of education meetings. Under the direction of the superintendent, charges and obligations are made against the district accounts as provided by these two documents. Some boards of education authorize charges against the district by sole action of the superintendent but with full accountability to the board; others require either preapproval or ratification at a board meeting of all expenditures or encumbrances above a predetermined amount.

Invoices received by the district office are checked for accuracy, approved by the responsible official, and then directed to the business office for payment. Other documents that legalize the payment of money from the school treasury include such items as contracts, time cards, and legal claims by government (social security payments, for example). All original documents must show evidence of proper authorization and satisfactory acceptance of services rendered or goods received before they can be authorized for payment.

Original documents that serve as supporting evidence of money received or expended must be filed as official records of fiscal transactions. They become the supporting records from which audits can be made. Usually the requisition, purchase order, and invoice or voucher for a particular transaction are clipped together and filed, forming a complete record of the events that authorized that particular expenditure. The original documents—receipts, contracts, invoices, checks and warrants, deposit slips, requisitions, purchase orders, payroll records, and similar documents—provide the information necessary for entries in the records maintained in the accounting system.

Financial Reports

The board of education and the general public are kept informed concerning the fiscal operations of a school district by various kinds of financial and statistical reports made by the business office. Typically, these include monthly reports of receipts, expenditures and encumbrances, and balances in all main budgetary accounts. The monthly report forms the basis for future commitments of funds. It allows the board to anticipate further encumbrances and points the way to budgetary control practices that avoid overexpenditures or underexpenditures in specific accounts or funds. Bailey indicated:

- Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.
- Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.
- Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.[16]

An annual financial report is sometimes required by law, in the form of a newspaper report to the public. It includes a record of the district's fiscal operations for the previous school year. The amount of detail included is often subject to controversy, because of its high cost. A statistical summary serves a useful purpose in keeping the public informed, but it is doubtful that the complete detail of the district's fiscal transactions is worth the cost of its publication.

Other reports are made as deemed important and relevant by the superintendent or the school board. Reports including charts, graphs, pictures, and other visual devices have proven to be popular and effective in telling the financial story of the district. Many superintendents consider such reports to be one of the very best public relations devices at their disposal.

State reports, fiscal as well as statistical, are a requirement for most school districts. The value of such reports can hardly be overemphasized. They form the basis for legislative action and for information that various state agencies and groups use to debate the cause of education. The states submit a summary of these reports and other information to the U.S. Department of Education, which combines them and thereby provides comparative financial information that is available to all the school districts of the nation.

Auditing

When protection of property and money is being considered (as well as protection of the reputation of the employees involved), the administrator and the board of education turn to the audit for support. Auditing is usually the culminating act in the business of protecting the assets of the school district; it is used in some form and to some extent by all school districts.

An *audit* is a systematic process or procedure for verifying the financial operations of a school district to determine whether property and funds have been or are being used in a legal and efficient way. It provides a service that no business—least of all an institution receiving and expending public funds—can afford not to use on a regular basis. Timeliness is essential. Audits of worth are those that provide information that is *current*. Delayed audits are virtually worthless and fail to achieve the goal of protecting the accounting system.

Purposes

The purposes of auditing are the same now as they always have been, but the emphasis has changed dramatically. Discovery of fraud and detection of errors were once the main functions of auditing, but it has other, more important functions today, as indicated in the following statement by Welsch and Anthony:

> Its purpose is to lend credibility to the financial reports; that is, to assure that they are dependable. Primarily this function involves an examination of the financial reports prepared by the management in order to assure that they are in conformance with generally accepted accounting concepts and standards. In carrying out this function the independent CPA examines the underlying transactions, including the collection, classification, and assembly of the financial data incorporated in the financial reports. In performing these tasks, established professional standards must be maintained and the information reported must conform to "generally accepted accounting principles" appropriate for the entity involved. Additionally, the CPA is responsible for verifying that the financial reports "fairly present" the resource inflows and outflows and the financial position of the entity.[17]

In spite of the foregoing, it seems likely that the average citizen, perhaps even the average school administrator, views the audit as simply a means of discovering financial shortages or misuses of public funds. That, however, is becoming less and less its main value to the school district. Only a very small percentage of school audits disclose any acts of dishonesty in handling school money. On the other hand, every audit does result in some protection to the honest school officials who have been responsible for the fiscal management of the district. In addition, the audit shows the degree or extent of observance of state and district laws and policies, shows the financial condition of the district and the adequacy or inadequacy of accounting procedures, provides suggestions to improve the system, and gives an official review of the operations of the school system for the period of the audit. These are the values that make the audit worth its cost.

Kinds of Audits

Audits or appraisals of school finance practices and records are of several kinds, but their purposes are the same—to satisfy state and local district requirements, to protect school funds, and to help establish public confidence in the operation of the schools.

The kinds of audits that school districts use are sometimes differentiated according to when they are to be made. For example, preaudits occur before the transactions actually occur, continuous audits occur during the length of the complete fiscal period, and postaudits occur after the fiscal period has elapsed. All types of audits form a basis for more efficient management of school funds and at the same time protect the school and its employees from what might otherwise be legitimate criticism of the school's handling of public funds.

The most common kinds of school audits in general use are internal, state, and external. These may be subdivided in turn according to when the audit is conducted and its degree of completeness.

Internal Audits. Internal (continuous) audits are conducted by technically qualified personnel already employed by the school district. They may be preaudits, current audits, or even postaudits. Postaudits usually are used in years when districts, in the absence of legal requirements, do not authorize an external audit. Internal audits function as an integral part of a control system that some districts use to assure school patrons of proper and careful management of school finances. By themselves, internal audits cannot guarantee such management, and they are in no sense a justifiable alternative to professional external audits that are required at regular intervals by the various states.

State Audits. It has been pointed out that states are paying a high percentage of the cost of public education. It is also known that school funds in reality are state funds. It follows, then, that the states have a direct interest in the management of local school district funds and therefore have a right, as well as a responsibility, to know how school finances are managed. Accordingly, the states require periodic audits of local district funds to ensure that the law is being observed in their utilization. The nature and extent of the audit vary considerably from one state to another. Those states that have many districts with limited resources and those that have many other institutions requiring state audits usually restrict the extent of state-required audits. Some states concern themselves only with local district observances of state laws governing the expenditure of school funds. A few states require such an audit only every three or four years. Many states solve this problem by requiring that independent auditors perform this function on a yearly or other regular basis.

External Audits. External audits are conducted by qualified agencies or individuals (usually certified public accountants). They are usually of the postaudit variety and may or may not be complete audits. The typical district may not require a complete external audit every year because of the cost factor, but this varies with the district's policy and the state's requirement.

External auditing practices follow state laws established for such purposes, as well as certain other generally accepted accounting procedures. Complete year-end audits usually include the following actions:

1. A study of the minutes of the meetings of the board of education. These records are the official authorization for all transactions that occur in the operation of the schools. The financial records of the school must be reviewed in terms of their agreement with the school board minutes and the legal requirements and regulations provided in state laws.

2. Verification of all receipts from all sources—revenue, nonrevenue, and transfer funds. This action includes a check on the allocation of receipts to the current-expenditure fund, to capital outlay, and to debt service accounts.

3. Verification of expenditures—requisitions, purchase orders, vouchers, and checks issued.

4. Review of the entries in the journal, ledgers, payrolls, and similar books of entry and disbursement.

5. Reconciliation of bank statements, accounts, money transfers, and investments.

6. Review of all subsidiary records, deeds, supporting documents, inventories, insurance policies, trusts, sinking funds, and numerous other records related to the operation of the school.

7. Inclusion of student activity and other internal accounts in every external postaudit. No school official should accept internal audits as meeting the audit requirements for such accounts (reasoning that they are not under the direct control of the board of education). There has been a tendency in the past to minimize or disregard the importance of spending taxpayers' money for such audits. In the average school district, these accounts are more likely to be in need of review and audit than the regular district-level accounts.

Thus, it is evident that a complete audit means exactly what the name suggests. In the words of Knezevich and Fowlkes, it is a "detailed study of the system of internal control of all books and accounts, including subsidiary records and supporting documents, to determine the legality, mathematical accuracy, complete accountability, and application of accounting principles."[18]

There are other kinds of audits in addition to the complete audit. For example, special audits (considering some particular phase or part of the school operation) are used when suspicion of error or fraud may be involved. Such an audit may be for other than a full fiscal year and may sometimes cover parts of more than one fiscal period.

The preaudit is an informal system to prevent unauthorized, illegal, or questionable use of school funds. It is an administrative procedure to protect the school from spending money for the wrong purpose or from the wrong account. In practice, it becomes a system of administrative control to assure school officials that embarrassing, unwise, or even illegal transactions are prevented. A certain amount of preauditing takes place in every school's operation, where care is taken to prevent unwise expenditures of money. The officials of the school may not think of their informal preventive or protective measures as being preaudits, but they are, nonetheless.

The continuous audit is much like the preaudit, but carried through the entire fiscal period. Large districts may have a more formal organization, with a controller or other official to perform this function. It is important that this function be conducted for the good of the educational program. It should not become a position with the negative connotation of "watchdog of the treasury."

Selecting an Auditor

Boards of education may sometimes wish to employ the auditor who bids lowest. Other factors are usually much more important in the selection—such as the accountant's competence, reputation, experience with similar assignments, availability, and ability to get the job done in a reasonable time. Competitive bidding for the assignment should never be used. Such a process is analogous to competitive bidding for the position of teacher or school superintendent.

Occasionally, problems arise between the auditing agency and the school district. In no sense is the auditor being placed in a position of evaluating the judgment of the board of education in the use of school funds. It should be made clear to auditors before they accept the assignment that their function is to verify what has happened in the school operation and report the findings to the board—not to the individual who has been in charge of fiscal operations. As technical experts, auditors provide fact-finding and advisory services only. They should have a free hand in performing their services, and the records of the school district and the informational services of the school employees should be at their disposal. These matters seldom are cause for difficulty if they are understood before the beginning of the audit.

It is very important that the board of education and the auditor agree on the extent of the audit to be made and establish some reasonable relation between this assignment and the estimated cost. A complete audit on a per diem cost basis might go well beyond the need of the school district or its ability to pay.

Audit Reports

If, as generally assumed, it is important to require audits of a school's fiscal operations, it is equally important that formal reports of such studies should be made to the school board. Typically, such reports should include:

1. A letter of transmittal, including the general contractual agreement, the procedures followed, and other general information
2. A specific statement of the scope of the audit and any limitations it may include
3. A statement of the general and specific findings of the audit, along with the implications of such
4. A list of recommendations for any improvements, additions, or deletions in the accounting system, together with the rationale for such recommendations

5. A schedule of tables, figures, and summaries of pertinent information concerning school operations, including inventories, insurance policies, deeds, and the like
6. Comparisons of school operations with those of other years, including receipts, expenditures, special accounts, and related information

Administrators and Audits

No wise administrator advises the board of education to avoid or postpone periodic audits of all school district fiscal operations. The cost is little when compared with the input it may provide for improving and evaluating school business operations. Professional educators should not leave a position or accept a new one where they are responsible for the management of school funds until some kind of formal audit, preferably by a certified public accountant, has been performed. The reputation of a school administrator, and to a lesser degree a teacher, is inextricably related to how the public views the management of public funds. An audit protects the prudent and detects the imprudent. It is therefore a necessity, not a luxury. A comprehensive audit by a qualified agency is the public's best possible assurance of the honest and efficient operation of school fiscal affairs.

Protecting School Funds

A school does not ordinarily impose on itself the rigid legal and system-oriented rules for receiving and expending money that banks and many other businesses usually use. Unfortunately, some administrators and teachers have had little or no training in business and have not placed the necessary emphasis on this aspect of the educational program. Education administrators must handle public funds with strict compliance to fundamental and sound business practices—regardless of the amount of funds under their jurisdiction. Strict observance of basic accounting principles and the bonding of all school employees who manage school funds are absolute necessities in all schools.

Surety Bonds

The chief purpose of bonding school officials is sometimes misunderstood. Bonding is not done, as some suppose, because of questions about the integrity of the officials concerned. Rather, bonds are placed on officials because of the nature of the office itself. Bonding protects the school district against fraud or loss, but it also provides motivation to the official to be businesslike in handling the funds under his or her jurisdiction. Surety bonds are of three main types: fidelity, public official, and contract. There are many varieties and special forms of each of these.

Used as a legal term, *surety* is defined as one who has the responsibility for the debt, default, or failure of another. A surety bond guarantees the performance of a contract or obligation. For a fee, an agent assures the purchaser of the bond—the board of education—that those involved with the finances of the district will fulfill their duties within the law. If there is loss of money through a fraudulent act on the part of a bonded district official, the bonding agency reimburses the district for the loss and pursues action against the individual(s) to recover its loss. Surety bonds may be purchased for activities other than financial. A board may want to have protection against a malfeasance suit, for example.

Management of Cash Receipts

The receiving and disbursing of school district funds offer few problems with regard to the money that goes through the normal fiscal cycle. Receipts for income, board authorization for the payment of verified invoices and other obligations, two signatures on checks for all expenditures, regular internal and external audits, and periodic reports to the board of education are evidence of the careful and legal management of school district funds.

There is less agreement, however, on some methods of handling cash receipts, such as lunch money, fees, store sales receipts, student activity funds, and many others. School officials should establish guidelines, policies, and procedures to protect these incidental funds as well as the reputations of those who handle them. Personal integrity is important, but so are records. The accounting system for such funds should follow acceptable guidelines, such as a centralized account for all student activity funds, receipts issued for all money received, early deposit of cash receipts (with only minimal amounts of cash left in the school safe at any time), an unlocked-safe policy when protecting small amounts of money of less value than the safe door, all payments made by two-signature checks issued only after proper authorization, accurate and complete records of all transactions, supervision of all accounting systems by a faculty member or administrator, continuous internal auditing by qualified personnel, and regular external audits.

Summary

Since schools perform their functions by receiving and expending public money, it is a major responsibility of school personnel to ensure that the money is spent wisely and that accurate and complete financial records are kept. School accounting records and principles have improved greatly since their early introduction into the schools.

There are benefits to be gained by school districts that follow the standardized accounting practices recommended by the U.S. Department of Education (formerly the Office of Education). These practices were refined and changed periodically.

Governmental agencies, including state departments of education and local districts, are now required to follow the Governmental Accounting Standards Board's *Basic Financial Statements.* Encumbrance accounting and the use of computers are examples of important improvements in financial accounting systems in recent years. Their use has simplified the process of financial recordkeeping.

Auditing of accounts by an outside agency is a necessary function for all school districts. Audits serve many purposes—one is to determine whether the financial operations were proper, legal, and in agreement with the district's accepted accounting practices. Audits also assist the district in determining the presence of fraud. It is unreasonable for a district to eliminate audits because of their cost. Every school administrator should insist on a preaudit of the district books when assuming office and a postaudit when leaving.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *accounting, auditing, fund, clearing accounts, encumbrance, cost accounting, accrual accounting, internal audits, external audits, surety bonds.*
2. Determine the requirements for accounting and auditing of school district financial accounts in your state.
3. Prepare arguments to justify annual auditing of school district accounts by a professional agency.
4. Interview a school district business manager to determine what improvements have been made in accounting and auditing practices in the last few years.
5. Report on incidents of misuse of funds that might have been avoided if proper accounting and auditing practices had been followed.
6. Report on the uses of computers and accounting software packages in school district business practices. What changes are expected in the next five years?
7. Determine how computers can assist in the auditing function. How are school districts protecting themselves against computer fraud? What type of computerized audit trails can be programmed for use in school district business offices?

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER

14 Business Aspects of the School Community

> *Educational administrators face a challenging and changing climate in our nation's schools. If I had to choose between two types of administrators, one a humanist and the other a business-like administrator, I would prefer the former because they are more sensitive to the needs of clients and professionals. However, a responsible administrator must have good management skills to insure that educational resources are well spent.*
>
> —Allan C. Orstein, 2001

In today's complex school community, regardless of its size, the superintendent's chief responsibility is to provide educational leadership. No chief officer can possibly perform all of the generally accepted functions of the superintendency alone; some of the duties of the office must be delegated to others. Since the business aspects of the school are clearly secondary to the educational aspects, the superintendent should delegate some of the financial duties to capable employees but retain direct leadership responsibility for the academic program. In delegating responsibilities to members of the staff, superintendents must remember that their major responsibility is that of educational leaders, not office clerks or purchasing agents, although the responsibility for supervising the work of all departments of the school operation remains with the superintendency.

Having selected managers to assist in performing the business affairs of the school district, superintendents are then free to devote their time and ability to improving the educational program. They cannot, however, escape responsibility for the conduct of the business affairs of the district. They must know what is being done, and they must remain qualified to advise and to confer with those who perform the functions of the business office. There is no school district large enough, wealthy enough, or with a large enough district office to justify the superintendent's ignoring fiscal and material resources management.

The Business Office

The school business office is often spoken about as if such an "office" always existed in a school system. Very often indeed there is no such place as an entity by itself; the office referred to is usually only a part of the all-inclusive function of the superintendent of schools. The superintendent in most small school systems is, in effect, the business manager, the purchasing agent, and perhaps even the accountant for the district. In some cases, the role may also include being the high school principal and even a part-time teacher. The purposes to be served by a business office and the problems encountered in school business management are much the same in all districts, however.

The superintendent of schools is directly responsible to the school board for the educational program in all its aspects. In small districts, duties include most of the functions of the business manager, sometimes with little clerical assistance. In medium-sized districts, an assistant superintendent or an official clerk may be classified as the business manager. In the larger districts, the office has a staff of assistants, clerks, and office workers who perform the business functions of the school, often under the direction of an assistant superintendent.

The functions of the business office increase as the size and demands of the school district increase. Some writers have designated the so-called business management assignment of this office "fiscal and material resources management" in an effort to describe its function more comprehensively and accurately.

Regardless of the size of the school district, there are certain services that must be provided as part of the business administration functions. Following are areas that may be considered part of business office operations:

- Accounting and Budgeting
  - Audits
- Benefits
  - Payroll
- Building and Grounds
  - Maintenance
- Employing and Supervising Personnel
- Food Services
- Purchasing
- Risk Management
  - Insurance
- Transportation
- Warehousing

Though there is much responsibility in conducting the affairs of a business office, it is important for the administrator not to lose sight of the fact that the office exists to support the teaching/learning process. Hill wrote,

> School business administration is not an end in itself. It exists for the sole purpose of facilitating the educational program of a school and school district. It should operate to support the teacher in the classroom, the principal in the school, the school board and central administration as each strives to fulfill its responsibilities toward the accomplishment of the educational mission.... The best school business official is one who understands the primary goals of education and who works closely with others in promoting the best education the community can afford.[1]

Students of education finance will readily note that these ancillary aspects of operating a school system add significantly to the overall costs of education.

Supplies and Equipment

Instructional and administrative personnel would be severely handicapped and their contributions to the educational program greatly minimized in the absence or short supply of appropriate materials and equipment. This is particularly true in today's schools, with emphasis on instructional media and educational technology. The days of providing teachers with only limited supplies of absolute necessities were not difficult ones for the school purchaser—who often was also a teacher. Purchasing, storing, and distributing the vast array of machines and materials needed by the school staff today is another matter, however. Instructional devices, aids, office supplies and equipment, custodial materials and machines, transportation parts and fuel, food service preparation, and instructional materials centers have revolutionalized education and brought management challenges to school district business offices. The costs of such devices have increased in relation to the change from such essentials as chalk, paper, pencils, textbooks, and a few maps and charts to the list today, which includes radios, recorders, television sets, projectors, computers and a vast amount of educational software, VCRs, interactive videos, globes, mockups, models, calculators, cameras, duplicating machines, and numerous other items.

Increasing pressures on school administrators for economical use of the school tax dollar and mounting demands for additional quality and quantity in educational programs make it essential that school administrators take a critical look at their entire fiscal operation. The objective of producing high-quality education at minimum cost has never been emphasized more than at present. The movement for accountability, the main thrust of systems analysis, and the negative reaction of taxpayers all point to the need to operate schools more efficiently without reducing their quality.

Financial accounting systems treat supplies differently from equipment. Procurement of supplies represents a charge against the current operating expenditures of the district, but equipment (except replacement equipment) is a capital-outlay expenditure. It is therefore important to distinguish between the two terms.

A *supply item* is any article or material that meets any one or more of the following conditions:

1. It is consumed in use.
2. It loses its original shape or appearance with use.
3. It is expendable; that is, if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to replace it with an entirely new unit than to repair it.
4. It is an inexpensive item; even if it has characteristics of equipment, its small cost makes it inadvisable to capitalize the item.
5. It loses its identity through incorporation into a different or more complex unit or substance.

An *equipment item* is a movable or fixed unit of furniture or furnishing, an instrument, a machine, an apparatus, or a set of articles that meets all the following conditions:

1. It retains its original shape and appearance with use.
2. It is nonexpendable; that is, if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to repair it than to replace it with an entirely new unit.
3. It represents an investment of money that makes it feasible and advisable to capitalize the item.
4. It does not lose its identity through incorporation into a different or more complex unit or substance.[2]

The differentiation between supplies and equipment is sometimes very difficult to make. In the interest of consistency, schools and many other institutions sometimes use a fixed standard of cost as the arbitrary determinant of the classification of the materials used in the operation. Thus, a material costing $250 per single unit might be classified as a *supply,* whereas one costing more than that would be called *equipment.* Standardization and consistency in whatever distinction is made is important if cost comparisons are to be made from year to year or from one district to another.

Purchasing

Accountability in education might well start with the procurement of school materials. It is among the first of the school's business operations to be studied and improved when the pressure of public opinion is directed toward economizing school business operations. The increased size of schools and the recent influx of devices, machines, and gadgets necessary to implement innovative programs have combined to multiply the problems involved in purchasing supplies and equipment for a modern school program.

Purchasing supplies and equipment is not just a simple process of ordering something from a vendor, although some people may view it as such. Involved in the complicated process of purchasing are such problems as determining what is needed and in what quantity and quality, synchronizing the time of need and the time of delivery, providing the quality of the product needed without overspending the amount budgeted, storing what is required without keeping too much money invested in inventories, keeping unsuccessful bidders happy, and satisfying school personnel when recommended brands of items are not purchased, deliveries are late, or some other reason prevents delivery of essential materials or equipment.

Great as the purchaser's problems are, planning and efficiency of operation will solve most of them. Written policies concerning the use of requisitions, purchase orders, and statements of standards or specifications are mandatory for efficient procurement and use of materials.

The problems involved and the procedures used in purchasing materials for schools differ somewhat from those usually encountered in business and industry.

Businesses tend to specialize to some degree in certain kinds of products; schools require a great variety of items spread over many areas. In private business, and to some degree in industry, procurement of necessary supplies and equipment is usually restricted within limited fields of a highly specialized nature. The materials required are usually selected, designed, or developed by technical staffs and passed on to the procurement officers. In general, school purchasing agents do not have the benefit of such specialized aids; they must devise their own methods of evaluating the characteristics of the many items that appear on their requisition lists. In so doing, they must satisfy the needs of teachers at all levels of education and in many special departments.

In all purchasing, economy, speed, and accuracy are important. The measure of efficient purchasing in any organization is having a particular item in the right place at the right time, at a fair price. If this ideal is to be realized, a procurement program must be established to provide adequate supplies and equipment that meet the immediate and long-range needs of the local school program.

Much has been written in textbooks and periodicals to help school administrators in establishing workable and efficient purchasing departments and improving those already in existence. Regardless of differences in the size of school districts or the character of materials procured or the sources from which they are obtained, some sound principles of purchasing procedures are commonly recognized. Purchasing practices in a school district should:

1. Accomplish a definite objective in the shortest possible time and in the easiest manner consistent with accuracy and efficiency.
2. Provide simplicity to speed operations and reduce possibilities of error.
3. Establish procedures that are definite and understandable to obviate friction, duplication, and confusion.
4. Fix responsibility for each step of performance.
5. Establish procedures that are sufficiently elastic to allow for expansion as the district grows.
6. Provide a system of procurement that is inexpensive and consistent with the job to be done.
7. Ensure that the system is adequate to perform the task for which it was created.

Policies Governing Purchasing

Effective school purchasing requires a systematic purchasing organization, operated by established procedure. The first step in establishing such an organization is for the board of education to adopt written policies concerning purchasing. Such policies are extremely valuable, not only to the board, school staff, and pupils, but also to the patrons of the school. They bring clarity and understanding to school operations. Carefully considered and well-written policies are the basis for all board functions. They legalize actions and relieve employees of the responsibility for making policy decisions under the pressure of time or expediency. Policies also help interpret institutional purposes and facilitate speed and accuracy in translating policy into action. They clarify the relationships among school board, superintendent, and staff in the matter of providing materials for the school program. Purchasing policies relate to (1) the staffing of the department, (2) objectivity in vendor relationships, (3) user input and feedback.[3]

To supplement the policies that the school board has adopted, the superintendent of schools or the assistant superintendent in charge of the business office should establish procurement regulations that will serve as detailed guides for staff members. If the purchasing policies of a school district are to achieve the desired level of effectiveness, they must be known and understood by everyone affected by them. The most effective means of communication possible must be used to make the information available to staff personnel and to vendors and interested patrons in the community.

Those in charge of purchasing at the district level must be aware of codes and purchasing regulations that may be established at the state level and apply to all state government entities, including school districts. Some state purchasing requirements may supersede local policies, and districts may be held responsible to abide by the state-adopted procurement code.

Standardization

Many of the supplies that a school district uses can be of a standard size and quality without loss in effectiveness. Where such standardization is possible, the use of standard lists has certain advantages. Unit costs can be reduced through buying larger quantities and through competitive bidding by vendors. Even when the personnel concerned help determine the standards and specifications of materials to be used, sometimes there will be justifiable reasons for buying special supplies or supplies with nonstandard specifications. Important as standards are in procuring supplies and equipment, no worthwhile school program should suffer unduly because of inability to use standardized materials.

Among other benefits, standardization:

1. Allows lower costs from bids on large quantities of one item
2. Reduces and facilitates repairs and replacements
3. Reduces inventories, thereby reducing storage costs, and at the same time increases the amount of school funds available for other purposes
4. Speeds delivery of materials or equipment
5. Reduces the number of materials and equipment for which specifications must be written
6. Reduces the work of the purchasing department, including that of business office recordkeeping

One of the problems involved in determining standards of quality (and therefore of price) is determining what quality in a product is required to achieve a particular function for a particular period. This is the same problem that the purchaser meets when buying an automobile for personal use. He or she must decide whether a secondhand car of a certain quality will provide the proper amount and quality of service for the duration of known needs, or whether additional investment in a new car will prove to be more economical in the long run. The school district purchasing agent facing the same problem may often be tempted to procure the least expensive item, in order to allow for purchases of other items. All too often, this results in employee dissatisfaction, poor performance, high repair costs, early replacement, and an unwise and uneconomical expenditure of school funds.

In determining the standard of quality, the purchaser should consider:

1. Length of term for which the product is to be used
2. The comparative service that each potential choice is known to have given
3. Prestige factors involved, if any
4. The extent of safety hazards involved, if any
5. The availability of the products under consideration
6. Initial cost and upkeep costs
7. Disposal problems and costs

Specifications for materials to be purchased often require much time and effort in preparation. When possible, districts take advantage of the standard specifications already prepared by private companies or by the Federal Bureau of Standards. The use of brand-name products will save the time of the business office in soliciting quotations and in ordering the product. It also provides some foreknowledge of the quality of the product being purchased. It has one important disadvantage: The user is often required to use one brand-name product when experience and personal bias would strongly suggest the purchase of a different one, often at little or no additional increase in cost.

Quantity Purchasing

School districts usually try to buy in large quantities to save on original costs and to reduce office work and delivery problems. This kind of purchasing policy requires a knowledge of needs and assures the business office of budgetary control in all supply and equipment accounts. At the same time, the practice could result in tying up the funds of the district in unnecessary inventories and requiring large areas of district facilities for storage. It may also occasion early purchase of certain materials that later become undesirable because of changes in teacher preferences or because better materials are invented or discovered. This may result in having to use supplies or items of equipment that are outmoded, obsolete, or not as effective as newer items. There is no standard rule for the purchaser to follow in deciding between quantity orders and more frequent orders. Experience with the products, as well as with the desires and working policies of school staff members, is necessary to determine the best policy for each district in quantity purchasing.

Bidding

Most states and local districts have rules and regulations concerning the need for competitive bids for the purchase of school supplies and equipment. Ordinarily, purchases or contracts for services for more than a stipulated amount or cost must be by bid. Here again, determining the maximum amount that does not require a bid is difficult. If the amount is low, little saving is possible—advertising for and receiving bids is expensive to the district and also to the vendor. Low maximums also tie the hands of the purchasing agent, who may otherwise have the opportunity of making frequent small purchases at a saving. On the other hand, placing the maximum too high encourages the district to purchase required materials without the formality and the savings of competitive bidding.

Bidding requires advertising, establishing specifications, obtaining sealed bids to supply the materials at a certain price, and determination of the successful bidder by the board of education. Bids are let to the bidder under a general policy of "lowest-best bid." This is not always the lowest bid in terms of unit cost. Other factors to be considered are quality of product and quality of service; ability of the vendor to provide the product, service, or both (usually covered by a performance bond); time when delivery can be made; and reputation and fiscal responsibility of the vendor.

Often, states have bid contracts for particular equipment that school districts may find beneficial. With the state's ability to buy in large quantities, savings can be generated for smaller districts especially. Small rural districts may find it advantageous to form a consortium for obtaining bids on certain high-priced items.

Supply Management

Once the supplies have been ordered and received, the neophyte purchasing agent may think the problem is solved. But the problems of receiving, storing, and distributing supplies loom large in the average school district. Supplies or inventory have little value unless they are available when needed. The main functions involved in receiving supplies are checking purchase orders against the goods received, noting the differences, if any, calling any errors to the attention of the vendors, certifying delivery, and authorizing payment. This work requires a careful and well-trained person. Irresponsibility in the receiving of supplies may cost the district money through errors in shipment or difficulties with vending companies. One of the advantages to be gained by receiving all purchases at the district or a central receiving warehouse is that it eliminates the careless checking that often occurs when many individuals perform this service.

Supply Storage

In large school districts, the problem of supply storage is often a serious one. The district must decide between a central storage facility and several site-level facilities. The advantages of these two methods tend to balance out. Central storage provides for better district control and accountability and reduces the number of employees involved in storing and distributing supplies. The decentralized system assures more school unit control and guarantees the availability of materials whenever needed, but less experienced employees are involved in their handling.

Storage of school lunch supplies and commodities requires special consideration. Supervisors are not always aware of what types of foods might become available from the federal government to supplement the school lunch program. The cost of operating the program are increased with the need for refrigeration/freezer storage facilities. School lunch supervisors are faced with these questions when receiving various types of government commodities with little notice: Is a central cooler/freezer available? Can the acquired supplies be stored in existing school facilities? Is temporary storage available from a commercial company? Can a neighboring district provide space for a period of time? Without careful planning, consequences could be costly.

As pointed out before, the primary concern is for the fiscal implications of the school's operation. The details of storage, distribution, and use of school supplies are therefore beyond the purview of this brief treatment. However, it is within the purpose of this work to suggest certain policies and procedures that do affect the costs of education. The following list of six requirements for an effective storage system seems pertinent:

1. All supplies must be stored in spaces that are free of destructive factors such as excessive heat or cold, moisture, vermin and insects, and fire hazards.
2. All storage areas must be accessible for both incoming and outgoing supplies.
3. All supplies must be so stored as to be readily available when needed.
4. All storage materials must be administered under the rule that old stock is used first.
5. A current inventory should be kept for each storage area.
6. Responsibility for proper operation of storage areas must be specifically assigned and clearly understood by all involved.

Distribution of Supplies and Equipment

Each school district has its own special system for the distribution of supplies and equipment. The essential characteristics of any system involve use of requisitions, records of distribution, and stock or inventory records.

The policy involved in the distribution of school supplies in today's school is much different from the traditional policy of an earlier era. No longer are supplies stored in the darkest corner of the basement under lock and key, available only on certain days or at certain hours and distributed on the basis of a permanent short-supply philosophy. The modern approach encourages a policy of putting supplies where they can be seen and obtained with the least possible inconvenience by the teacher or other staff members. Modern administrative policy recognizes the value of materials in helping the staff achieve the purposes of the school. It is economically foolish to employ a teacher at a good salary and then deny that person a chance to succeed by limiting the supplies, devices, and other aids so essential to the educational program. The old fear that open shelves of readily accessible supplies would encourage waste has proved to be groundless. Today's teachers use more supplies and greater varieties of them, but there is little evidence of their misuse.

Risk Management and Insurance

The concept of risk management has changed drastically in the past few years as litigation has put the onus on boards of education, administrators, and teachers as responsible parties for accidents that occur in the classroom and on the playground. As a result, many districts are taking positive steps to alleviate problems before they occur by assigning *risk management* responsibilities to a staff member. "The term 'risk management' did not come into use until the 1960s. However, the practice of risk management dates back to 4000 B.C with the practice of Bottomry. Bottomry was the method used for spreading risk in maritime adventures through loans that were repayable at exorbitant interest rates for successful ventures."[4] In education, past history has been simply that of alerting schools of possible danger areas and providing some workshops related to health and accident hazards.

Business and industry have led the way in demonstrating the value of taking an aggressive approach in preventing accidents in the workplace and have found it financially beneficial to hire a person specifically assigned to risk management responsibilities. The public sector, including school districts, has become much more involved and it appears the future will require more and more services through a risk management office. Constantino provided evidence that school districts might have an even greater need than other public entities:

> A school board needs to evaluate the relationship between risk management and the high cost of risk. Even if a town employs a risk manager, school district risk management differs from municipalities in its liability exposure. A municipality is primarily dealing with adults—school districts deal with young, immature adults. School districts face a tidal wave of new and expanding exposures to loss, not the least of which is the liability of public officials and public bodies such as school boards.[5]

More and more services will come from the risk management office:

> Risk management in the year 2000 and beyond will require a holistic approach to the management of risk. The days of risk managers solely purchasing insurance, filing claims and reviewing contractor's certificates of issuance will be a distant memory.[6]

Letzring stressed, "Instead of eliminating all risks, you manage them to the point that they have the least effect on your bottom line."[7] More importantly, "look at the situation in terms of a safe and healthy environment for the students."[8] He noted that this effort falls into four categories:

1. *Risk avoidance.* Eliminate high-risk activities such as gymnastics, scuba diving, use of trampolines, and other potentially hazardous activities.
2. *Risk control.* Give thorough instructions to staff and students concerning risks in science labs, wood, metal and auto shops, gym classes, playground equipment, and potential hazards in and around the building.

3. *Risk transfer.* Involve a third party, through contract, to cover costs for losses that fall under certain insurance terms. Transfer may be through waivers signed by parents. Courts may have to decide if such waivers are legal, but some recent cases have upheld such agreements.
4. *Risk retention.* When risks cannot be eliminated, controlled or transferred, evaluate whether insurance costs are too great or unavailable; expected losses are so small that costs can be considered a part of operating costs; or the risk is so remote that it does not justify insurance.[9]

One approach to transferring risk is with public entity risk pools. Governmental Accounting Standards Board 10 defines this as "a cooperative group of governmental entities joining together to finance an exposure, liability, or risk. Risk may include property and liability, workers' compensation, employee health care. A pool may be a stand alone entity or be included as part of a larger governmental entity that acts as the pool's sponsor."[10]

The public entity pools vary, but can be classified as follows:

- *Risk-sharing pool.* Governmental entities join together to share in the cost of losses.
- *Insurance-purchase pool (risk-purchasing group).* Governmental entities join together to acquire commercial insurance coverage.
- *Banking pool.* Governmental entities are allowed to borrow funds from a pool to pay losses.
- *Claims-servicing or account-pool.* Governmental entities join together to administer the separate account of each entity in the payment of losses.[11]

In Utah, the Office of Risk Management is charged by statute with the responsibility of establishing a risk control program for state agencies and participating school districts. The office identifies the following as its purpose:

> Risk control is the art of anticipation and action and is an inherent management responsibility. It is embedded in the risk management process and has to do with identifying risk of loss and then eliminating, reducing or avoiding risk in the most appropriate way in each circumstance. It encompasses safety programs, inspections and training, but goes beyond traditional concepts of "safety" to include management issues such as policies and procedures, programming and contracts. It should be as broad and pervasive as risk of loss is. Among the main objectives of our risk control program are these: (1) to save lives, (2) to eliminate human suffering, (3) to avoid disruption of the services you provide and (4) to reduce the cost of losses and thereby meet the public trust you have for the resources you control.[12]

Though there is an apparent great need for school districts to have a risk manager, as with so many other aspects in education, finances dictate priorities. "Yet, despite its importance for cost-control, asset protection and employee safety, many school districts lack the resources to hire a full-time risk manager."[13] In the main, districts throughout the country have assigned a staff member this responsibility as an add-on to other duties and have provided limited training. Whether the position is full time or part time, it is necessary to be supported at the top administrative level. Bieber stated:

> Top management support is important for a full-time risk management program to be effective, and it's even more important for a part-time risk management program because much of the day-to-day activities are going to have to be done on a departmental basis. Top management must demonstrate to department heads and line supervisors the importance of their cooperation, explain the need for a part-time risk management function and introduce the manager responsible for it.[14]

Because of the many potential risks, a litigious society, and increasing costs necessary to cover liabilities, it is likely that the role of the risk manager will continue to become increasingly more important in school business affairs.

Increased Safety Hazards

The purpose of the school is to provide its pupils with high-quality education of the variety and quantity that will improve their behavior and competence as law-abiding and self-supporting citizens. But that purpose is not all inclusive; the school's first responsibility involves maintaining the safety and protecting the health and well-being of all who attend. Education has relatively little value to the seriously injured pupil or to the one whose physical or mental health has been jeopardized through negligence on the part of anyone in the school community.

Too often in the past, school employees have given only limited attention to protecting the safety and maintaining the health of their pupils. These activities, they reasoned, were the responsibility of other government agencies and of the home. They often found their own academic or administrative responsibilities too time consuming to permit significant involvement in the primary safety and health concerns of students.

The potential and the real hazards to the health and safety of pupils in the school complex are greater than is commonly believed. As schools have become larger, many of the dangers to its members have increased. From automobile/motorcycle/bicycle hazards outside the school itself, to the playground heavily stocked with potentially dangerous equipment, to the overcrowded classrooms, gymnasiums, and laboratories, the dangers to life and limb manifest themselves on every hand. As a result, the importance of eliminating safety hazards, protecting the health of pupils, providing adequate insurance, and using risk management principles is much greater today than ever before in the history of education.

The usual method of guaranteeing protection for the educational community is to transfer risk to an insurance carrier. There is an emphasis now on reducing the probability of loss by eliminating safety hazards.

Most schools are not negligent in providing pupils with a safe and hazard-free environment, but a few are. Every school, regardless of its safety record in the past, should constantly be reviewing and improving its policies and procedures to protect the safety and well-being of all members of the school community.

Principals need to protect themselves from lawsuits through a systematic approach of determining how safe the school facilities are for students and staff. A survey of the buildings and grounds on a frequent basis is essential. Establishment of a safety committee—including a teacher, parent, school nurse, representative from the fire department, and school administrator—has proved a successful approach in taking inventory of safety needs in some districts. Use of a self-evaluation safety checklist has also proved helpful in identifying hazardous problems in the school setting. Often, such surveys reveal areas of concern that may be costly to modify or repair. However, the risk management approach of prevention may prove to be the least costly in the long run. In addition to the desire to protect school children, school staff members should remind themselves that courts will look very critically on an institution whose members, required to be present by edict of the state, have not been given the greatest possible personal protection while in attendance.

Schools do a great deal to protect the safety of people, but there are other risks against which the board must protect itself. There is always the danger that buildings and property may be damaged, altered, or destroyed, or that some of their vital parts may be stolen, in spite of the best protection the school can provide. In addition, school personnel may become involved in tort action in the courts. Boards of education and school administrators must therefore know and observe state laws concerning safety precautions as well as exercise their best judgment in providing insurance protection as it relates to all aspects of the school program.

Insurance

Insurance is a method of providing for cooperative sharing of the risk of financial or other loss in the event of some unfortunate incident. School districts are concerned primarily with insurance protection against loss of life; acts of criminals; the alteration of, destruction of, or damage to school property; the liability of school personnel for tort action; and the personal welfare of school employees.

Insurance has been called a necessary expenditure to provide for benefits in case of an incident or emergency that the purchaser hopes will never occur. The risk taker (school or individual) purchases insurance from a professional risk bearer (the insurance company or risk pool) as financial security in the event that some undesirable event occurs. No person looks forward to the burning of a home or a school so that insurance will be collected. The insured is merely trying to soften the financial blow of a catastrophe in the hope that the loss will not be permanently damaging.

School Board Responsibility

The school board's responsibility for operating schools carries with it stated and implied powers for the protection of public funds and property. It is taken for granted that schools and their pupils must be given reasonable protection from interruption and loss from emergencies, disasters, or other less serious events. The legal responsibility for such protection rests solely with the board of education in each school district, except in states where such protection is provided at the state level. This is an important obligation that the board can ill afford to ignore or minimize. At stake are several needs: protection of the state's and local district's large investment in school buildings and property; financial protection for individuals in the event of injury, tort action, or death; and public protection against interruptions in the normal school process in the event of emergencies.

Just as prudent individuals protect themselves against financial loss from fire in homes or places of business, so a responsible board of education will protect a community from the same risks with its school buildings. This is best accomplished by buying insurance in amounts commensurate with the size of the investment the district has in such properties.

Unfortunately, it is often no longer possible to buy such insurance at a reasonable cost. Many school districts view the provision of adequate insurance as a necessity. Insurance premium rates have skyrocketed, juries award claimants large amounts of money, and some school districts and municipalities are simply unable to pay extraordinarily high insurance premiums.

Basic Principles

Since it would usually be unwise economically for a school district to provide insurance to protect it from all the possible risks such an enterprise might face, school boards are often faced with the problem of selecting those items or assets for which they are most obligated to provide insurance protection. There are a number of basic safety measures that school boards can use to help cover many of the areas of low risk, to supplement the insurance program considered necessary for high-risk facilities and operations. These would include loss prevention through good building design, safety programs, regular inspections of buildings, the provision of adequate fire-fighting equipment, and the accumulation of reserves to pay for any losses sustained.

As thousands of school boards have dealt with their insurance problems over a long period, certain basic rules or principles have evolved:

1. A well-organized and conscientiously administered safety and loss-prevention program is not only inexpensive but also very effective in reducing injuries and property losses through accidents. Such a program is needed for management, as well as humanitarian reasons, and it is also the best and least costly kind of insurance.

2. The board of education has a moral and legal responsibility to provide protection for its employees, its students, and its patrons against ordinary accidents that often occur within the jurisdiction of the school. Once a discretionary power of the board, the provision for a well-conceived insurance plan is now a mandatory duty of every board of education, acting within the legal framework and guidelines provided in each state.

3. The board of education has a moral (and sometimes a legal) obligation to formulate in writing its policies and regulations concerning the safety and protection of all those in the school community.

4. The insurance program of a school should be the result of careful study of risks involved, past experiences in the district, and the recommendations of consultants. The field of insurance is so broad and complex that school administrators cannot hope to advise their boards concerning such needs solely on the basis of their own knowledge and experience.

5. The insurance program should not be static and unchangeable but should reflect changing needs and risks. To continue an insurance program year after year without evaluation and change or adjustment is a practice that only the inexperienced, the careless, or the uninformed pursue.

Main Types of Insurance

Insurance on almost any risk can be purchased if cost is of no concern to the purchaser. Thus, insurance may be available for almost anything and everything the school board may want to insure. The establishment of insurance priorities is therefore highly important to the board. The following is a list of some of the most common kinds of insurance that a typical school board would want to consider. No priority is intended, for that would vary from one school to another.

1. *Fire.* Insurance on the building and its contents against loss from damage by fire; common to all school districts; may use coinsurance, blanket insurance, specific or specific-schedule insurance, or self-insurance.
2. *Extended coverage.* Insurance that is added to fire insurance policies to cover miscellaneous risks, usually windstorm or tornado, smoke, loss by vehicular or aircraft damage to buildings, hailstorm, or riot damage; often difficult to obtain and expensive in riot-prone areas.
3. *Glass.* Insurance against loss of windows or door glass; usually too expensive for buildings with extensive window areas. Some schools are experimenting with plastic windows that are unbreakable in order to reduce high insurance costs.
4. *Boiler.* Insurance for protection against property damage, injury, and death due to boiler or pressure-tank explosions; a *must* for high-pressure boilers but not so necessary for the low-pressure ones now being used in many schools.
5. *Floater.* Insurance to protect all valuables and equipment used by the school; originally was inland marine insurance, which protected property in transit from one location to another.
6. *Crime.* Protection against loss by burglary, robbery, or theft.
7. *Automobile and bus.* Protection against damage or destruction and liability for damage and injury to others caused by district-owned automobiles or buses.
8. *Liability.* Protection against bodily injury or damage caused by accidents due to the negligence of employees or those sustained on school-owned property; also

protection to the school board in states that have waived the immunity rule for school boards.

9. *Worker's compensation.* State protection from loss to the employee because of injury or death resulting from employment.
10. *Surety bonds.* Protection for the school district against loss or damage through dishonesty of employees.
11. *Accident.* Protection for pupils for injury sustained in the activities of the school.

Fire Insurance

Fire insurance rates are determined in terms of the risks involved. The type of construction of the building, adequacy of the fire department and its water supply, kind and age of equipment, distance from the fire department to the school, and fire alarm systems are all determinants of the rates school districts must pay for insurance. Buildings that are not fire resistant require higher rates than those that are fire resistant. Rates are lower for buildings that are near adequate and modern fire departments. Rates are also lower for insurance issued for longer periods; the typical term of an insurance policy for school buildings is either three or five years.

Financial protection of the large investment that every school district has in buildings, equipment, and other property is an absolute necessity. The serious predicament of the small school with inadequate insurance that loses its only building to fire is not pleasant to contemplate. If such an event should occur, no amount of explanation based on the board's opinion that insurance costs were beyond its budgetary provisions would satisfy the local citizenry, replace the school building, or in any way provide for the future school program. Thus, fire insurance is a necessity in order to protect the capital assets of a school district.

Increasing Rates

Increases in vandalism have had an effect on the willingness of insurance companies to insure schools. At one time, schools were wooed by insurance companies eager to insure them. Now, schools are either refused the coverage or asked to pay a much higher premium or accept an increased deductible.

The fact that some insurance companies may have overreacted does not alter the possibility that social problems of the day may have a deleterious effect on schools' efforts to protect the assets required for their operation. The penalties—difficulty in getting adequate property insurance and being forced to pay high rates for coverage—fall on districts with a record of few claims just as they do on districts with a record of many high claims.

The current problem of securing insurance coverage is greatest in urban areas. Some city school systems have been forced to close their doors for a short time after policies were cancelled or their renewal refused. Some of the larger cities use self-insurance; smaller city school districts are almost forced to count on greater state or federal financial assistance to help solve this problem.

Determining Insurance Needs

Neither overinsurance nor underinsurance represents an economical expenditure of funds for a school district. Overinsurance is a financial waste, for the district can never collect more than the actual loss of a building. On the other hand, insurance companies never pay more than the value of the insurance policy, regardless of a greater amount of loss.

Determining the insurable values of buildings involves original cost (excluding the cost of the site, architectural fees, foundations, and other noninsurables), depreciation, and replacement costs. The insurable value is the replacement cost (minus noninsurables) minus the value of depreciation for the number of years the building has been in existence.

It is essential that school boards know the insurable value of their buildings at the time they are insured. The savings that a board may presume to make by determining its own values for original purchase of insurance may be lost when insurance adjusters determine the value of claims. The value of using qualified appraisers and professional services in determining insurance needs is obvious.

Coinsurance

School districts have generally favored a system of coinsurance for protection against fire losses. Coinsurance involves a sharing of the risk between the school district and the insuring company. Coinsurance policies are usually written with either 80 percent or 90 percent coverage. This means two things. (1) If the school district maintains its required coverage (the 80 or 90 percent of insurable value it chose), the rate will be less than if it allows its coverage to be less than the agreed-on percentage. (2) If full coverage of the 80 or 90 percent is maintained, the insurance company will sustain the total amount of fire loss up to the value of the insurance; but if full coverage is not maintained, the district will share proportionately in every fire loss regardless of how large or how small it may be.

Coinsurance uses lower rates as an incentive for districts to carry the maximum amount of insurance that it has agreed to carry. Since any amount less than that agreed on makes the district liable for some fraction of any fire loss, districts are motivated to keep their coverage at the maximum. Since most school building fires do not result in complete loss of the building, less than maximum insurance coverage would never fully protect the district for any of its fire losses.

A district must keep accurate and up-to-date records of property values and insurance coverage. Regular appraisal of property by qualified professionals is an absolute necessity. Appraisal services are often available through state agencies or insurance companies, usually at low cost to the school. Certain organizations, such as the National Board of Fire Underwriters, perform useful services that are now available to schools in the improvement of the fire insurance policies and standards necessary to protect public property.

Extended Coverage

All the real and imaginary risks to buildings are not covered by ordinary fire insurance policies. For example, the risks of damage from riot, explosion, windstorm, tornado, hail, smoke, or aircraft are not ordinarily covered in such policies. Extended coverage policies, however, provide such insurance, at some additional cost. Just what kinds of insurance the district should carry and in what amounts are judgments each school board must decide for itself. Ideally, such decisions are made only after careful study of the experience, over time, of comparable districts in comparable locations and with the recommendations of the administrative staff (made only after consulting professionals in school building insurance).

No school board, regardless of its revenue-producing ability, can afford to protect the school district from all possible hazards or risks. The cost would be prohibitive and would represent a degree of misuse of public funds. The insurance carried by a district should be determined on a "degree of risk" basis. For example, a school building near an airport represents a different degree of risk than one located in open country. Again, fire-resistant (sometimes erroneously referred to as fireproof) buildings in open country represent a much different risk from frame construction buildings in the same location. The responsibility of the school board is to protect itself and its clientele as best it can, keeping in mind the cost as compared with the risk involved in each unit insured. Good rules of thumb for the board would be to provide adequate insurance on all high risks, establish priorities and exercise sound judgment on all average risks, and eliminate or minimize insurance on low-risk insurables.

Self-Insurance

Insurance costs are determined by many factors, including the probability of loss as determined by experience with large numbers of similar risks under similar circumstances. Thus, the danger of loss of several buildings in a school district may be slight, particularly if they are scattered at random within the district. Under such conditions, a very large school district with a large number of buildings and with adequate financial resources may decide to provide "self-insurance" for its buildings and other insurance needs. The board may reason that the risk of loss of one or more buildings is offset by the large sum necessary to pay the insurance premiums over time. It may then proceed in one of three ways: (1) with no insurance—losses to be paid out of tax revenues or from special bond issues; (2) with the provision of insurance only on property with the greatest risk of loss and no insurance on the rest; or (3) with the provision for reserve funds (instead of premium payments), from which future losses will be paid.

The use of self-insurance in protecting schools in the event of insurance loss is obviously controversial. The argument at one extreme is that such a procedure offers no protection whatever; the argument at the other extreme is that some districts could and should insure themselves. Consequently, state law and the judgment of the board of education must provide the answer regarding whether to self-insure.

Liability Insurance

With the demise of archaic immunity laws regarding school board liability for tort action in several states, providing liability insurance becomes a relevant consideration. Many school funds be legally expended for liability insurance to protect school boards for the torts of its employees in common-law states? The question still produces more than a little controversy, but there is no such paradox in the states that have abrogated that rule. The law and a sense of fairness to pupils require that all those who have a responsibility for pupils' safety, welfare, and education be insured. In the common-law states that adhere to the immunity principle, this means liability insurance on school employees at district expense. To the gradually increasing number of states that have cast aside the immunity rule, by court edict or state statute or both, this means liability insurance on school employees *and* school boards at public expense.

Regardless of whether the law mandates or simply approves school district liability insurance on itself or its employees, school boards have moved to provide whatever liability insurance coverage is necessary to protect all those with legal liability. This is a necessary part of the cost of education—one that experienced boards of education will not refuse to approve.

Regulation of Insurance

It is necessary that the broad field of insurance be regulated by some agency of government to protect all parties concerned. Without regulation, the cost of insurance could be placed at almost any point at the same time that some companies could default in their insurance payments to the parties who had suffered losses.

Most states control insurance companies through the office of a state commissioner. Through that office, insurance companies are approved to sell insurance if they meet the state rules and regulations that apply. The possibility of deception or fraud is decreased under this form of state regulation. School boards need to become familiar with the general pattern in their state for control of this important service. Among many other benefits to be obtained by the school board from such regulatory procedures, there is the value that comes from obtaining a reliable rating of all insurance companies licensed to operate within the state.

Transportation

State laws require compulsory education and prescribe that each school-age student is entitled to a free public education. If students are unable to get to and from schools because of time, distance, hazards, or their age or physical limitations, they are effectively denied a free education. Consequently, as a regular and necessary part of operating schools, districts must provide some means of getting students to and from schools where, otherwise, their very attendance would be jeopardized. Transportation of students is usually left to local districts, though they must operate within guidelines and restrictions established by state and federal legislation and regulated on a statewide basis.

The transporting of students is part of the education process in many districts and it can have a big impact on district budgets. The ramifications of operating school buses may seem trivial on the surface for the noninformed. Few people are aware that the transporting of students in the United States is the largest ground transportation system in the country. A report in *School Transportation News* noted that "more than

450,000 yellow school buses travel in excess of four billion miles on America's highways and roads yearly during the average 180-day school year. In a typical year school buses provide *10 billion separate rides* to the nearly 24 million K–12 students who take the yellow school buses to and from school daily."[15] In 1998, there were over five million trips for student activities. Some 54% of the student population in the nation were provided transportation at an average cost of $493 per student.[16]

It is expensive to purchase, operate, and maintain a fleet of school buses. A large school system with transportation needs must employ drivers, mechanics, and a supervisor to determine routes, schedule trips, and provide other functions to operate an efficient fleet. Buses get low miles per gallon, making fuel costs a huge concern. In the year 2000, oil prices increased dramatically and caused some districts to curtail services greatly.

Small rural districts usually have a greater percentage of the overall budget assigned to transportation because of the number of students that need to be transported greater distances. In general, such districts must operate without the resources available in larger districts.

In most states, transportation revenues are provided in addition to other budgets. However, if expenditures are greater than money available, the operation budget may be tapped and may infringe on the main focus of educating students. In some states, hazardous routes are left to the discretion of local boards of education and may be costly, but necessary, in transporting students over railway crossings, water hazards, busy intersections, or other such hazards. A local board may have an option of assessing a mill levy to offset such costs.

The Individuals with Disabilities Education Act (IDEA) requires that special education students be transported in specially equipped buses. No federal dollars have been appropriated to assist states and districts in meeting these additional costs. The Department of Transportation standards have added to costs as more stringent safety standards have been required. Other increases have been added to transportation budgets as discipline and vandalism have become a greater problem. Video cameras have been installed in many buses and aides are required to control students.

To enhance the education program and extend the classroom, field trips are an integral part of the curriculum in most districts. Athletics are also a factor in the transportation budget. These areas are funded in various ways by individual districts.

There are many ramifications in operating a school district transportation program. Districts in the nation spent $10.4 billion in 1996[17] to get students to and from schools. The intent in this book is to draw attention to the financial impact on education, not to detail the functions necessary to operate an efficient program.

School Food Services

The National School Lunch Program (NSLP) is federally assisted and operates in more than 96,000 public and nonprofit private schools. It was established under the National School Lunch Act in 1946. Financial support and administration is through the Food and Nutrition Service within the Department of Agriculture. In most cases, the program is administered by the state education agencies with agreements with local school districts.[18]

Since its inception, the school lunch program has broadened to include school breakfasts, special milk programs, summer food services, and after-school snacks. Almost 99 percent of all public schools are involved and 58 percent of the school children to whom the lunch program is available participate. It is apparent that this program is big business and a financial issue for states, districts, and local schools.[19]

The local school district business office is involved in operating the school lunch program and is responsible under the direction of the superintendent and board for the fiscal soundness of the program. There are restrictions and regulations that must be adhered to, but in the final analysis, the program should be self-sufficient and efficiently managed so that it does not become a financial drain on the district's regular budget. At the local school level, the responsibility, however, still remains with the principal or other administrative head.

Revenues are received from the U.S. Department of Agriculture, which provides a cash reimbursement for each meal served, and from funds collected from program participants. In addition, schools may receive commodities, called *entitlement* foods, at a value of 14.7 cents for each meal served. Schools can also get "bonus" commodities as they become available from surplus agricultural stocks, including fresh, canned, and frozen fruits and vegetables; meats; fruit juices; flour and other grains; and other surplus products.[20]

The eligibility requirements for reduced or free meals are contained in the *Federal Register* for the Department of Agriculture, Food and Nutrition Service, which indicates:

> The Department requires schools and institutions which charge for meals separately from other fees to serve *free meals* to all children from any household with income at or below 130 percent of the poverty guidelines. The Department also requires such schools and institutions to serve *reduced priced meals* to all children from any household with income higher than 130 percent of the poverty guidelines, but below 185 percent of the poverty guidelines.[21]

The poverty level and eligibility figures are listed in Table 14.1.

Students eligible for a reduced-price meal can be charged no more than 40 cents.[22] Children from families with incomes over 185 percent of poverty pay full price, though their meals are still subsidized to some extent. Local school boards set their own prices for full-price meals.[23]

Table 14.2 shows the total participation in the program for a three-year period. In 1999, nearly 27 million children were served 4.5 billion meals at a cost to the government of $6.0 billion. Estimates for the total program for the year was $11.5 billion. Of the total lunches served, 57.6 percent were free or reduced in price.

There are critics of the child nutrition programs. Because of the vastness of the participation and the costs involved, critics—and even some educators—ask the question: Why are we in the food business? The basic answer is that "we can't expect our children to learn when they're hungry."[24] Studies have shown that children have im-

TABLE 14.1 Income Eligibility Guidelines (effective to June 30, 2000)

Household Size	Federal Poverty Guidelines			Reduced Price Meals—185%			Free Meals—130%		
	Annual	*Month*	*Week*	*Annual*	*Month*	*Week*	*Annual*	*Month*	*Week*
1	8,240	687	159	15,244	1,271	294	10,712	893	206
2	11,060	922	213	20,461	1,706	394	14,378	1,199	277
3	13,880	1,157	267	25,678	2,140	494	18,044	1,504	347
4	16,700	1,392	322	30,895	2,575	595	21,710	1,810	418
5	19,520	1,627	376	36,112	3,010	695	25,376	2,115	488
6	22,340	1,862	430	41,329	3,445	795	29,042	2,421	559
7	25,160	2,097	484	46,546	3,879	896	32,708	2,726	629
8	27,980	2,332	539	51,763	4,314	996	36,374	3,032	700
For each add'l family member add	+2,820	+235	+55	+5,217	+435	+101	+3,666	+306	+71

*Alaska and Hawaii eligibility requirements are higher.

Source: Federal Register, Vol. 64, No. 63, April 2, 1999.

TABLE 14.2 National School Lunch Program Annual Summary

Fiscal Year	Total Participation	Total Lunches Served	% Free of Total Lunches	% RP of Total Lunches	Snacks Served	Cash Payments	Total Commodity Costs
1999	26,946,340	4,513,170,877	48.9	8.7	11,279,917	5,314,253,294	704,898,528
1998	26,598,578	4,424,910,927	49.7	8.2	188,512	5,101,622,506	728,202,211
1997	26,341,186	4,408,979,420	49.8	7.9	185,630	4,934,041,187	619,656,924

Source: http://www.fns.usda.gov/pd/slmonthly.htm, data as of July 2000.

proved academic performance when they have eaten school breakfasts, and studies have linked hunger in children to other problems, including absenteeism, tardiness, hyperactivity, and antisocial behavior.[25]

Summary

Good management skills are required to operate the business aspects of the school community. Every school district is faced with the problem of procuring, storing, and distributing supplies and equipment in the most efficient and economical manner possible. If school budgets are reduced, the need for effective management of fiscal and material resources increases. Regardless of the size of the school district, the chief school administrator is responsible for assuring that maximum benefits are provided by the expenditure of each dollar in every aspect of the school program. The person or persons who supervise and administer the supplies and equipment program of any school district should be capable and well trained. Even though this operation is secondary to the instructional program, it demands care and wisdom on the part of all those who are responsible for its administration.

Some school districts are finding it advantageous to assign a staff member to a risk management position—a concept that is gaining greater acceptance in the public sector. As a preventive measure, boards of education and principals of local schools should survey the facilities on a systematic basis to be assured that hazardous areas for students and staff do not exist.

As the risks of operating schools increase, the need for evaluating and improving the insurance program increases. It is easy to overinsure or underinsure the property and potential loss and liability from a myriad of causes. In procuring insurance, the school board should be certain that its program is providing coverage at reasonable cost for risks that often exist and that it does not provide high-cost insurance for risks that seldom exist. Regardless of the insurance provided, the program should be under constant evaluation by knowledgeable insurance advisers in order to provide the necessary coverage at minimum cost, using sound risk management principles.

Because of higher premiums and districts being rejected for coverage, some districts have become self-insured. States are making it possible for agencies under their jurisdiction, including schools, to become a member of an agency pool. In an inflationary period, school boards may find that a district that was properly insured is now underinsured. Neglecting to carry adequate insurance is a common oversight of many school districts. In very large districts, but not in small ones, self-insurance can sometimes be substituted for a formal insurance program.

Transportation and food services are usually assigned to the business office to administer. Both have wide participation and are an important part of the overall education program. Effective management is necessary to work with these relatively large budgets and to comply with federal and state restrictions and requirements. Though the day-to-day operations may be the responsibility of the principal and business office, the superintendent and the board of education are ultimately held accountable for the soundness of the programs.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *business principles, risk management, supply, equipment, standardization, bid, insurance, food services, transportation, liability, coinsurance, extended coverage, self-insurance, tort.*
2. Determine the major changes that have taken place in school district insurance needs, particularly in the area of liability for lack of supervision of students, failure of students to learn, tort actions, and so on.

3. Develop a rationale for and against self-insurance for a school district.
4. List the arguments for and against state insurance of all school buildings within a state.
5. Determine what approach a local district and the state are using for risk management procedures. Is there evidence that employing a risk manager is fiscally sound?
6. Suggest a plan for the orderly procurement, storage, and distribution of school supplies and equipment as well as a plan for transporation and school food services for a medium-sized school district.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman.com/edadminsite.

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CHAPTER

15

Human Resources and School Finance

> *Approximately 80% of Public Expenditures for Public Education is spent on providing financial rewards for school personnel. Human resource coordinators should be aware of that. Also every person in any organization is unique and human resource administrators should be aware of those individual differences as they function in managing the affairs of their organization.*
>
> —D. Craig Huish, 2002

Since the administration of personnel is the skill of leading and managing people rather than things, the term personnel has taken on a more encompassing meaning—the development of human resources. Personnel administrators tend to concentrate on recruitment, salaries, benefits, certification, and retirement, whereas a human resource administrator is more a "people expert," with a broader consciousness to motivate employees and assist in fulfilling their needs. Financing human resources is an ongoing concern, including areas such as analyzing economic, political, and social changes; being concerned with productivity and accountability; meeting the needs of a demographically changing clientele; and performing these tasks equitably.

Human resources administration is possibly the most important function in education when it is based on the realization that a school's success and effectiveness are dependent on those people working within the school, whether they are students or employees. A quality education program depends greatly on three basic elements:

1. The quality of the human resources within the system
2. The extent to which productive human relationships are realized
3. The development and utilization of existing human qualities

Expanding Role of Human Resource Administration

As the school complex has expanded in size, the need for improving school personnel services has also increased. Likewise, as the number of teachers in a school or community has increased, their educational level advanced, and their collective bargaining intensified, the voice of the profession has been magnified. School boards continue to face concerns related to the selection and recruitment, orientation, assignment, and payment of instructional and other personnel; to these have been added the concerns involving professional negotiations and all their ramifications, as well as some adversarial actions caused, in part, by declining and shifting enrollments. The role of human resources covers a broad spectrum (see Figure 15.1) and is expanding as a result of many factors. Increasing program needs, escalating government encroachment, shifting enrollments, changing demographics, greater mobility of educators—all complicate the human resources management process. Human resource professionals must be directly involved in the strategic planning of the school district, since well-prepared and well-serviced professionals are essential in a school district's mission.

Broad categories of human resources necessary to accomplish organizational goals include in-service programs that increase the skill level of employees, adequate and equitable remuneration for employee performance, reconciliation of the varied interests of teachers and administrators, and employee productivity through effective evaluation. Recruitment and selection in the contemporary scene may include various screening procedures of applicants, such as drug testing, fingerprinting, and determining if there is a history of criminal or moral impropriety. Separation, which must be handled adroitly, may be adversarial (discharge and reduction in force, for example) or nonadversarial (such as retirement and/or promotion).[1] The human resources

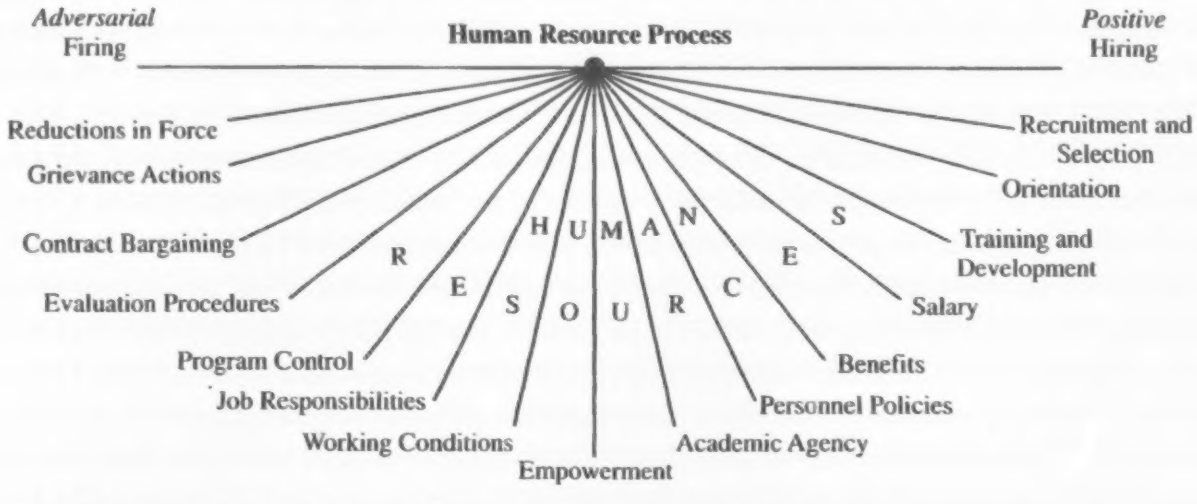

Adversarial
Firing
Human Resource Process
Positive
Hiring
Reductions in Force
Grievance Actions
Contract Bargaining
Evaluation Procedures
Program Control
Job Responsibilities
Working Conditions
Empowerment
Academic Agency
Personnel Policies
Benefits
Salary
Training and Development
Orientation
Recruitment and Selection
H U M A N
R E S O U R C E S

FIGURE 15.1 **Expanding Role of Human Resource Administration**

function, as it expands, is a dynamic force in enhancing a school district's effectiveness and efficiency.

Teacher Salaries

One of the central tasks of educational administration is to allocate funds, facilities, personnel, and information in such a way that the improvement in educational achievement between entering and leaving students is maximized. To that end, the general purpose of the compensation process is to allocate resources for salaries, wages, benefits, and rewards in a manner that will attract and retain a school staff.[2]

Since the chief function of the school is to provide those who attend with human services in the form of high-quality academic instruction, the biggest cost of public education is salaries to instructional personnel. Thus, the problems of school finance are directly related to school employment.

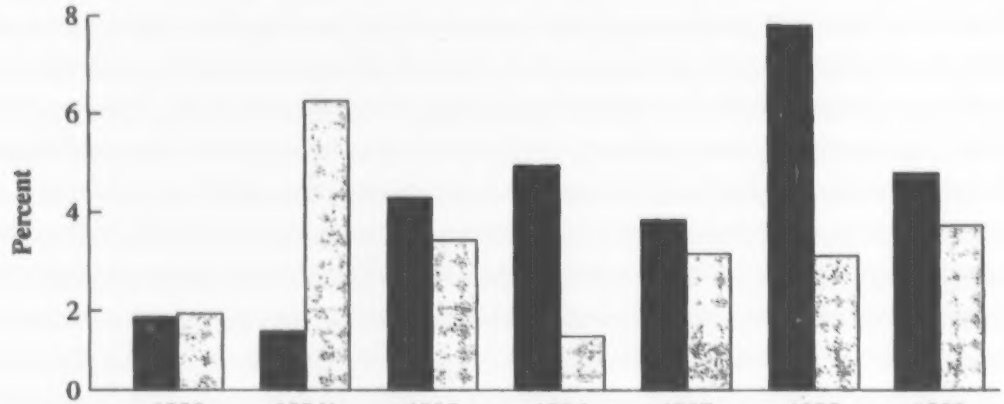
Providing increases in teacher salaries and satisfactory benefits is not a new problem to the field of school administration. Teachers have been among the last of the occupational groups to obtain financial compensation commensurate with their training and experience (see Table 15.1). Even at entry level, educators graduating from college receive less compensation than those in other major fields of study (see Figure 15.2). Teachers have done better, however, when compared to the average annual earnings of all workers and of all government workers (see Table 15.2).

The salaries of public school teachers, which lost purchasing power to inflation during the 1970s, rose faster than the inflation rate in the 1980s. The rising salaries reflected an interest by state and local education agencies in boosting teacher salary

TABLE 15.1 Trends in Teacher Salaries Compared to the Average Annual Salaries of Selected White-Collar Occupations

	1999	1998	1997	1996	1994	1992	1990	1980	1970
Mean Teacher Salary	$40,574	39,278	38,415	37,594	35,764	34,027	31,347	16,100	8,635
Accountant III	$49,257	45,919	42,921	42,172	39,884	37,648	35,489	21,299	10,686
Buyer/Contract Specialist III	$57,392	54,625	51,323	46,592	44,616	41,392	38,385	22,904	11,665
Attorney III	$69,104	71,530	67,980	66,560	64,532	65,884	59,087	33,034	16,884
Computer Systems Analyst III	$66,782	63,072	59,031	57,772	54,548	53,300	47,958	n.a.	n.a.
Engineer IV	$68,294	64,489	62,259	60,684	56,368	53,404	49,365	28,486	14,695
Full Prof. Public Doctoral	$78,830	75,150	72,220	69,760	64,860	61,950	57,520	30,100	18,100
Assistant Prof. Public Comprehensive	$41,940	40,760	40,170	39,000	37,220	35,730	32,730	17,800	10,800

Source: http://www.aft.org/research/survey99/tables/tableII-5.html. Used by permission from the Research & Information Services Department, American Federation of Teachers, AFL-CIO.



	1992	1994*	1995	1996	1997	1998	1999
■ **College Graduates**	1.6%	1.3%	4.2%	4.9%	3.7%	7.9%	4.7%
▨ **Beginning Teachers**	1.7%	6.3%	3.3%	1.2%	3.0%	2.9%	3.5%

* Reflects a two-year change—1992 to 1994.

FIGURE 15.2 Annual Change in Salary of New College Graduates Compared to Beginning Teachers

Source: http://www.aft.org/research/survey99/figures/figureIII-3.html. Used by permission from the Research & Information Services Department, American Federation of Teachers, AFL-CIO.

schedules. Since 1990–91, salaries for teachers have fallen slightly after adjusting for inflation.[3] The average salary for teachers in 1999 was $40,582; the range was from $28,552 in South Dakota to $51,584 in Connecticut (see Table 15.3).

With the need for nearly 2 million new teachers during the next decade, the concern is being able to attract qualified personnel if salaries are not competitive.[4] The teacher is a public employee and as such suffers from the fact that salaries paid out of public funds are usually not competitive with those paid in the private sector, where the profit motive prevails. Government employees at all levels are victims of the same unwritten law of economics. The salaries paid in the public sector are controlled by boards of education that are sworn to protect the public treasury; in the private sector, the individual operator or the board of directors of a business is free to pay whatever is required in the competitive complex in which one operates. Also, the latter can usually measure quite objectively the amount of production of the worker, but the controlling board of education has real difficulty in measuring the increased production of services resulting from the work of higher-paid teachers.

Issues in School Human Resources

Many difficult problems face the administrator and the board of education in the administration of human resources; most of them are directly concerned with the expenditure of money. The best possible salary policy in terms of teacher and other staff

TABLE 15.2 Trends in Teacher Salaries Compared to the Average Annual Earnings of All Workers and of All Government Workers

		Mean Annual Earnings (1999 Dollars)						Ratio of Teacher Salary to Salary of:	
		Teachers		*All Workers*		*Government Workers*			
	CPI Change	*Average Salary*	*Change*	*Earnings*	*Change*	*Earnings*	*Change*	*All Workers*	*Government Workers*
1999	2.6%	$40,574	0.7%	$36,072	0.4%	$38,469	0.4%	1.12	1.05
1998	1.5%	40,308	0.7%	35,939	3.4%	38,328	1.9%	1.12	1.05
1997	1.8%	40,032	0.4%	34,743	2.4%	37,601	1.3%	1.15	1.06
1996	3.3%	39,861	−1.1%	33,918	0.2%	37,113	−0.2%	1.19	1.14
1995	2.5%	40,285	0.2%	33,859	0.3%	37,177	0.3%	1.20	1.15
1994	2.7%	40,208	−0.5%	33,750	−2.0%	37,011	−3.6%	1.20	1.15
1993	2.7%	40,406	0.4%	34,074	0.1%	36,373	0.1%	1.19	1.11
1992	2.9%	40,239	0.0%	34,024	2.7%	36,355	1.7%	1.18	1.11
1991	3.1%	40,226	2.0%	33,133	0.7%	35,740	2.5%	1.21	1.13
1990	6.1%	39,430	−0.3%	32,900	−1.2%	34,857	−0.6%	1.20	1.13
1980	12.5%	31,398	−4.4%	30,749	−2.2%	31,049	−3.4%	1.02	1.01
1970	5.6%	36,514	2.9%	31,949	1.0%	33,837	5.6%	1.14	1.08

Source: http://www.aft.org/research/survey99/tables/tableII-2.html. Used by permission from the Research & Information Services Department, American Federation of Teachers, AFL-CIO.

TABLE 15.3 Average Salaries of Public School Teachers: 1998–99

1. Connecticut	$51,584
2. New Jersey	$51,193*
3. New York	$49,437*
4. Pennsylvania	$48,457
5. Michigan	$48,207*
6. District of Columbia	$47,150*
7. Alaska	$46,845
8. Rhode Island	$45,650
9. Illinois	$45,569
10. California	$45,400*
11. Massachusetts	$45,075*
12. Delaware	$43,164
13. Oregon	$42,833
14. Maryland	$42,526
15. Indiana	$41,163
16. Wisconsin	$40,657
National Average	**$40,582***
17. Ohio	$40,566
18. Hawaii	$40,377
19. Georgia	$39,675
20. Minnesota	$39,458
21. Nevada	$38,883
22. Washington	$38,692
23. Colorado	$38,025*
24. Virginia	$37,475*
25. Kansas	$37,405
26. New Hampshire	$37,405
27. Vermont	$36,800*
28. Tennessee	$36,500*
29. North Carolina	$36,098
30. Florida	$35,910
31. Alabama	$35,820
32. Kentucky	$35,526
33. Texas	$35,041
34. Arizona	$35,025*
35. Iowa	$34,927
36. Maine	$34,906
37. Missouri	$34,746
38. South Carolina	$34,506
39. West Virginia	$34,244
40. Idaho	$34,063
41. Wyoming	$33,500
42. Utah	$32,950*
43. Nebraska	$32,880
44. Louisiana	$32,510
45. New Mexico	$32,398
46. Arkansas	$32,350*
47. Montana	$31,356
48. Oklahoma	$31,149*
49. Mississippi	$29,530
50. North Dakota	$28,976
51. South Dakota	$28,552

*Estimated

Source: National Education Association, *Rankings & Estimates: Rankings of the States 1999 and Estimates of School Statistics, 2000,* Table C-11: Average Salaries of Public School Teachers, 1998–99 (revised per nonpaginated erratum sheet), as cited in *NEA Today,* April 2000, page 10. © NEA; used by permission of the NEA.

requirements, as well as the funds that are available, must be determined. Over time, the most common way to pay teachers is with a single-salary schedule accompanied by a certification requirement. In this procedure, the amount of the beginning salary is determined; a number of classifications are established, such as bachelor's degree, bachelor's degree plus a certain number of hours, master's degree, master's degree plus a certain number of hours, and perhaps a doctor's degree classification and then yearly increments for continued successful performance; and the determination of a maximum salary. Of importance in the salary schedule are the benefits provided, which have become numerous and expensive, covering items such as retirement, social security, sick leave, personal leaves, bereavement, insurance, worker's compensation, and professional improvement activities. The use of a single salary schedule has its critics. The method of certification is being altered in certain areas of the country. The significant increase in benefits has affected salary increases.

As an alternative to the salary schedule, some school districts are using factors such as pay-for-performance, career ladders, merit pay, and linking teacher pay to improvement of student scores on standardized tests. For example, the Cincinnati, Ohio, board of Education in May 2000 approved a plan "to pay teachers based on their performance rather than on the number of years spent in the classroom"[5] The plan calls for "a five-tiered system of career levels aligned with 16 new teaching standards, in-depth assessments and professional development. The new career-level approach would label beginning teachers as 'apprentices' and give them opportunities to progress to the 'novice,' 'career,' 'advanced,' and 'accomplished' levels in sequenced stages at their own pace as they meet goals outlined by the district. Pay would be increased accordingly."[6] The same year, the Los Angeles, California, school district formally proposed "a plan that would tie individual teachers' compensation to their students' scores on the Stanford Achievement Test, 9th Edition and on Advanced Placement exams."[7] There are other patterns of merit pay, career ladder, and alternative benefits proposals that are being articulated that will perhaps change the way educators are compensated.

Generally, certification is acquired by completing an intensive teacher preparation program that includes completing certain method, professional, and pedagogy classes; receiving a bachelor's degree in the subject to be taught, passing the state-required examinations, and sometimes completing a teaching internship. Many states use teachers who have followed an alternative certification road map. In 2000, New Jersey reported on a program used in their state that recruited teachers from colleges who stressed subject matter over traditional education courses. New Jersey recruited heavily from liberal arts colleges such as Lafayette, Yale, Colgate, Princeton, and others, "choosing history majors as history teachers, math majors as math teachers, science majors as science teachers"[8] and requiring all prospective teachers to take and pass a test in the fields they teach. They established a body of knowledge—pedagogy to be learned—that they entitled "Boyer Topics," which was taught to prospective teachers with degrees outside education. A mentoring support system is created in which "a school principal and at least one teacher are responsible for mentoring the new teacher…called the 'alternate route.'"[9] In Maryland, provisionally certificated teachers are allowed four years to complete certification requirements. In the District of Columbia and Virginia, provisional teachers have three years to finish.

Troops to Teachers was established in 1994 to provide assistance for military personnel to become teachers. Those who want to teach vocational education have only to document their expertise. Applicants are encouraged to look into emergency certification programs. Legislation approved recently allows stipends for military retirees to help pay for their expenses in certification programs.[10] Another program, Teach for America, places college graduates in two-year positions, who must then comply with certification by taking up to 20 credit hours of graduate course work or a master's in the art of teaching.[11]

Private industry is providing certification options. Sylvan Learning Systems and the University of Phoenix are two examples. California has given the University of Phoenix approval to offer licensure programs in Los Angeles for teachers with emergency credentials. The university began training teachers in 1999. Sylvan Teacher

Institute markets its services directly to districts. Sylvan hires people from its contracted districts to teach portions of the program. Sylvan provides full-time "instruction managers" to help teachers in the classroom. Prince George County and Baltimore in Maryland are paying Sylvan $6,500 per teacher trained.[12]

Education is a labor-intensive industry. Historically, instructional salaries have consumed between 65 to 80 percent of the operation and maintenance budget. In any study of financing education, human resource administration is of prime importance because of the major impact to provide the necessary labor. No school can attain its goals unless it has a corps of competent teachers and other staff members. At the same time, no school can attract and keep the qualified human resources so necessary for its purposes unless sufficient funds are available to provide adequate salaries and benefits.

Salary Schedules and Merit Pay

As salary schedules developed, they gradually became the single-salary variety (equal pay for personnel with the same qualifications and experience, without regard to gender, grade level taught, number of dependents, or other previously used factors). An extension of the single-salary schedule developed that included additional pay for yearly steps and additional schooling still utilized by most districts. Table 15.4 includes the negotiated salaries for teachers in the South Haven, Michigan, district for 1999–2000. Table 15.5 is a somewhat more elaborate index that provides greater salary in "steps and lane" changes. Table 15.6 is an indexed salary schedule in which salaries follow a certain index shown in the left column. As new salary schedules are adopted, those teachers with more experience receive a greater share by the indexing method. Note also in Table 15.6, salaries are capped from 14 years to 28 years. This negotiated feature came about as a result of the state retirement program that uses salary figures of the last 3 to 5 years of employment to determine retirement benefits. Merit pay and other provisions in salary schedules seldom satisfied teachers, school

TABLE 15.4 South Haven, Michigan, Public Schools Teacher Salary Schedule: 1999–2000

Step	BA	MA	Step	BA	MA	Step	BA	MA
1	28,183	30,720	6	35,230	39,529	11	42,274	48,335
2	29,593	32,481	7	36,638	41,289	12	43,684	50,097
3	31,002	34,243	8	38,047	43,050	13	45,094	51,858
4	32,410	36,009	9	39,457	44,811			
5	33,820	38,856	10	40,866	46,573			

Note: BA + 20 Semester Hours = $250.00
MA + 10 Semester Hours = $250.00
MA + 20 Semester Hours = Plus $250.00

TABLE 15.5 Passaic, New Jersey, Schools Salary Guide: 1999–2000

Step	BA	BA + 15	BA + 30	MA	MA + 15	MA + 30	MA + 45 Dual MA
1	34,458	35,581	36,793	38,835	40,877	42,792	44,706
2	35,312	36,511	37,806	39,985	42,166	44,209	46,253
3	35,582	36,781	38,077	40,256	42,437	44,480	46,524
4	35,853	37,052	38,347	40,527	42,707	44,750	46,794
5	36,194	37,393	38,688	40,867	43,048	45,091	47,135
6	36,821	38,020	39,315	41,494	43,673	45,718	47,761
7	37,448	38,647	39,941	42,122	44,301	46,344	48,388
8	38,348	39,547	40,841	43,021	45,201	47,245	49,289
9	39,131	40,330	41,624	43,803	45,983	48,027	50,070
10	39,778	40,977	42,270	44,450	46,630	48,673	50,717
11	41,188	42,387	43,681	46,860	48,040	50,084	52,127
12	42,984	44,183	45,478	47,658	49,838	51,882	53,925
13	46,656	47,779	49,073	51,253	53,433	55,476	57,520
14	50,325	51,224	52,819	54,998	57,178	59,223	61,266
15	63,194	64,644	66,223	68,836	71,449	75,075	76,443

boards, or the general public. At the same time, defense of the single-salary schedule became no easier. Merit pay has received renewed attention nationwide because of the call for educational reform and accountability. Legislators, reflecting the attitude of the public, are expressing the opinion that salaries for teachers and administrators should be based on performance. Mere passage of time and additional education, without evidence of teacher improvement, have always been difficult to defend as the criteria for salary increases. Some career ladder programs have attempted to meet the criticism by tying performances to increased compensation.

The arguments have changed little in the last 50 years. Those who maintain that the salaries of teachers should be determined by merit have stated:

> Pay increases should not be based solely on time served in a position or the number of academic degrees held, but also on performance as measured by specific standards. In the case of teachers, that is an issue that has been raised by parents and educators for years.... President of the American Federation of Teachers, Albert Shanker, has said that "coursework and seniority do not guarantee knowledge and skill."... The need for this kind of system is obvious...and the time to adopt it is now.[13]

Those who oppose merit pay have stated:

> Merit pay won't work; it hurts those it purports to help. Anyone who promotes merit pay must believe that teachers are best motivated by financial incentives. They assume that teachers could do a better job, but they are holding back because there's not enough in it for them. Wrong. But the worst thing about tying pay to performance in

TABLE 15.6 Washington County School Teacher's Salary Schedule: 2000–01

Step	Index	BS Degree	BS Degree + 30 Quarter Hours Approved Credit	BS Degree + 45 Quarter Hours Approved Credit	Master's Degree	MS Degree + 30 Quarter Hours Approved Credit	MS Degree + 55 Quarter Hours Approved Credit	Doctorate Degree
1	1.00000	24,121	25,358	26,594	27,833	29,070	30,306	31,543
2	1.05129	25,358	26,594	27,833	29,070	30,306	31,543	32,782
3	1.10252	26,594	27,833	29,070	30,306	31,543	32,782	34,018
4	1.15388	27,833	29,070	30,306	31,543	32,782	34,018	35,255
5	1.20517	29,070	30,306	31,543	32,782	34,018	35,255	36,492
6	1.25641	30,306	31,543	32,782	34,018	35,255	36,492	37,729
7	1.30770	31,543	32,782	34,018	35,255	36,492	37,729	38,967
8	1.35905	32,782	34,018	35,255	36,492	37,729	38,967	40,204
9	1.41029	34,018	35,255	36,492	37,729	38,967	40,204	41,440
10	1.46158		36,492	37,729	38,967	40,204	41,440	42,677
11	1.51288			38,967	40,204	41,440	42,677	43,914
12	1.56417				41,440	42,677	43,914	45,152
13	1.61546					43,914	45,152	46,389
14	1.66676						46,389	47,626
28	28 Years+			40,204	42,677	45,152	47,626	48,863

> education is that it leads to harmful practice for the very students that it purports to help. Merit pay would encourage divisive competition in a profession that requires cooperation and teamwork. Students learn best when teachers collaborate—not when teachers are forced to compete.[14]

The challenge in awarding merit pay comes in all parties agreeing on a scale and the subjective nature of evaluating performance. The topic will continue to be under scrutiny and the debate will be ongoing.

Extra-Duty Salary Supplements

The practice of adding salary supplements for additional services of teachers is becoming common. It began with small stipends for coaching some of the major sports, football and basketball in particular. The original rationale centered on the many extra out-of-school hours required in many athletic programs. From that beginning, the practice has spread to many other fields of activity. There are at least three significant objections to this practice: (1) It often creates problems between those who receive such supplements and those who do not. (2) It is difficult to find a teaching area in which supplements could not be justified if the teacher is making a maximum effort to develop it. (3) The practice tends to erase some of the characteristics that education must possess if it is to be a real profession; teachers under this system tend to think in terms of the time required to perform a particular function rather than in terms of units or elements of service.

Salary supplements for extra duties represent one means of avoiding the evils of the lockstep single-salary schedule. Justified or not, the practice represents an attempt to determine salaries on the basis of services rendered. Its deficiencies come from the fact that it is generally a quantity rather than a quality measurement.

Trends in Salary Scheduling

The business of salary scheduling is not static, for innovations are constantly being introduced into the process. Such additions and improvements usually add to the increasing costs of education but decrease the unfairness and inequities that have so often characterized salary schedules in the past. Some of the most important trends in salary scheduling include:

1. The single-salary schedule has been retained as a minimum or base scale, with virtual elimination of individual bargaining for salary purposes.
2. Serious consideration has been given to salaries based on measures of teacher effectiveness, such as career ladder or merit pay programs.
3. Greater emphasis on and wider acceptance of index salary schedules has facilitated the salary determination for a differentiated staff and at the same time given more favorable salary consideration to career teachers at or near the top of the salary scale.

4. More attention has been given to salary supplements for the extra services rendered by some teachers—particularly in supervision of extra class activities; this seems likely to lead to continuing controversy.
5. The cost-of-living factor has been recognized in determining salaries at all levels, with greater concern for the demands of teachers for generally higher salaries.
6. More attention has focused on the benefits to be derived from longer-term contracts for those teachers who desire them; 10-, 11-, or 12-month contracts will likely be offered to many more of the instructional staff than at present.
7. Annual salary increments have increased at all levels, with various increments reaching the maximum salary in most categories.
8. Salary schedules have been written in such a way as to encourage additional academic and professional education for teachers.
9. More progress has been made in adopting salary schedules by which the career teacher will be able to double a beginning salary in about 10 or 12 years.

Benefits

School districts were generally slow in accepting the functional value of benefits to teachers and other school employees. Business and industry led the way in inaugurating benefits such as retirement plans, tenure, sick-leave privileges, and insurance benefits. For the most part, these are benefits that entered the educational scene in the last half of the twentieth century, most of them since World War II, which acted as a catalyst for benefits. Because wages were frozen during the war, benefits were used to compensate workers. In today's competitive market, benefits have become an important part of the reward system of publicly as well as privately employed personnel (see Table 15.7).

Some of the important aspects of these benefits as they apply to education are the following:

1. School boards, like private employers, have discovered that benefits rank next to attractive salaries and good working conditions as motivators of efficiency and maximum productivity.
2. Benefits serve a double purpose: First, they provide needed personal benefits that teachers often would not provide for themselves. Second, they do not involve the increases in income taxes that would accompany payment for the same benefits by the teachers themselves from increased salaries, although the federal government continues to analyze the prospects of taxing benefits.
3. Benefits help to increase job satisfaction and thus reduce disruptive changes resulting from faculty resignations and consequent replacements.
4. Some of the matching employer costs of retirement, insurance, and other benefits are now being absorbed as state rather than district expenditures, thus making

TABLE 15.7 **A Summary of Benefits**

Program	Frequency	General Provisions
Retirement	In every state	A guaranteed amount (depending on length of service and contributions) on retirement; disability and death benefits; some programs include withdrawal privileges (with interest) of employee contribution for those who leave the system before retirement; some plans provide for investments in stocks and mutual funds that may offset any losses due to inflation. Many districts offer early retirement incentives.
Social security	Nationwide	Joint contributions; members pay part and the state pays part; available to certificated and usually to full-time noncertificated employees. Federal program supplements state retirement; survivor benefits for on-the-job workers; death benefits; guaranteed monthly income on retirement if age 62 or over; employee takes benefits with him or her when moving from one state to another.
Sick leave	In nearly all districts	Full salary while employee is ill—up to a stipulated number of days, which are usually cumulative to some established maximum number. Required in some states; some districts pay teachers for unused sick leave days accumulated; may not be available to noncertificated employees.
Personal leaves	In many districts	For emergencies other than illness; usually not more than 1 to 5 days per year; the circumstances of each request are usually considered on their own merits, rather than according to a universal policy; not usually available to noncertificated personnel.
Leaves of absence	Becoming more widely accepted	Usually provides for extended leaves without salary for study or professional improvement, disability, political activity, travel, or maternity reasons. Some districts provide some compensation for sabbatical or improvement leaves for certificated employees; seldom available to noncertificated personnel.

(continued)

TABLE 15.7 A Summary of Benefits

Program	Frequency	General Provisions
Bereavement leave	In some districts	When a close relative dies, days are allowed to attend the funeral, arrange affairs, and travel distances.
Insurance	Widespread	Employer provides benefits without increasing employee's salary, thereby saving the income tax due; usually provides group insurance: health and accident, hospitalization, dental, long-term disability, and life. Many districts provide liability insurance for tort action on all school employees.
Worker's compensation	Nationwide	Provides various options of benefits for injury and disability of all school employees; usually required by the states as protection for the risks of employment; mandatory in some states, optional in some, and not available in one or two others.
Tax shelters	Nationwide	Federally granted privilege to public school teachers to invest part of their earnings in an annuity payable at a later time; delays income tax on these earnings until the benefits are received; since the retired teacher will probably be in a lower tax bracket, there will be tax savings. Some other flexible tax benefits are available.
Severance pay	In very few districts	Employee usually gets the value of his or her unused sick leave and other unused leave pay; an infrequently used benefit; not usually available to noncertificated personnel.
Income tax deductions	Nationwide	Provides income tax deductions (federal) for certain necessary and approved expenses of public school teachers while studying and otherwise improving their professional training required for retaining their present position of employment, as required by the school district or the state; not available for the purpose of position advancement.

such benefits available to the personnel of financially weak districts as well as all others.

The costs of benefits are increasing significantly. They have reached such proportions that salary increases are limited in order to pay the various benefits. Social security contributions, as of 2000, up to a salary level of $72,600, were 15.3 percent of salary (7.65 percent by employer, 7.65 percent by employee). Leave benefits are becoming more expensive and costs for medical insurance have skyrocketed. Estimates for benefit costs to districts can range from 35 to 40 percent of salaries.

Some benefits have become somewhat controversial. One area involves benefits of same-sex partners and/or marriages. In 2000, Vermont became the first state to legislate same-sex unions. Those private organizations that have extended benefits to individuals thus defined may affect public entities, including school districts.[15] Another controversial issue is benefits to terminated employees. The Supreme Court ruled that employees do not lose their health, welfare, or pension benefits when terminated. Although the Court was addressing a specific statute, such a ruling may have implications to human resource benefits in education—especially in those districts with declining enrollments. At issue were termination rights motivated by an "employer's desire to prevent a pension from vesting" and "interfering with the attainment of any right to which a participant may become entitled."[16] The federal government may have an influence on benefits, declaring that such benefits are tantamount to income. For example, if one were paid for unused sick leave, then sick leave itself may be considered income, or if a teacher receives free tuition for dependents, that, too, may be regarded as income. In 2000, two innovative benefits were proposed in California. The Governor advocated that teachers not pay state income tax[17] and in San Francisco the Board of Education proposed building housing for educators.[18] Human resources personnel need to stay abreast of such developments.

Teachers and School Finance

It is no secret that teachers as a group have not been particularly concerned or informed about the rudiments of school finance. Stories of teacher naiveté in this field have seldom been exaggerated. A few teachers received their initiation to the subject when their local or state professional organizations appointed them to teacher-salary committees, but the problem of financing education was of little interest to most classroom teachers.

The pendulum is swinging in the opposite direction. By choice, teachers are insisting on a stronger voice in decision making, particularly as it affects reward for service. Increased salaries, more substantial benefits, and better working conditions have accompanied the discovery of muscle resulting from professional negotiations. The teaching profession appears to be surprised and uncertain about the responsibilities accompanying such power.

Salaries and other benefits are not spontaneously generated. They must come from somewhere, and the normal budgets of most school systems are already overburdened. Teachers, who formerly viewed the fiscal affairs of schools as a foreign language to be learned only by administrators and boards of education, now find themselves among those who have an interest in seeking additional sources of school revenue. Further progress in providing for the still-rising costs of education is virtually impossible without the united efforts and sympathetic understanding of all large segments of the society in the United States, including the vast numbers of professional teachers who stand to receive important benefits in future years.

Only recently has the typical teacher begun to realize the potential benefits of understanding and skill in the field of school finance. Also, state legislative bodies have recently deemed it necessary to turn to the profession for assistance in finding new sources of revenue for schools. Only informed and interested people can respond successfully to this new challenge.

Thus, it seems that present-day human resource administration has reached the point where teachers must develop some acumen in school finance if the objective of teacher rights and participation is to be more than a mere platitude. Teachers, teacher organizations, and administrators face the task of providing the means and the motivation to raise the level of teacher knowledge so as to help find valid answers to the problems of financing education.

A number of avenues are open for fulfilling this need: required courses in the basics of school finance, in-service training projects, workshops, civic study groups, practical assignments to the members of negotiating teams, and many others. Teachers must understand that their participation in negotiations and salary disputes gives them a duty to understand the implications and the problems of higher salaries and benefits. They are citizens, too. Just as it is impossible for school boards to draw additional dollars out of depleted budgets, so it is impossible for an uninformed group to arrive at consensus on teacher salary demands. A beginning point can be established if the teachers themselves, particularly the career-directed ones, assume responsibility for learning principles of school finance.

The Changing Assignments of Teachers

In recent years, innovations of various kinds have changed the traditional pattern of teacher assignments. Computer instruction, flexible scheduling, large-group instruction, team teaching, closed-circuit television, individualized and continuous-progress instruction, and similar programs have accelerated the differentiation of staff assignments. State requirements of a college major in a subject other than education is now being imposed in some states for initial teacher certification. The inducement for such prerequisites is the belief that classes should be taught by teachers who are experts in the field. The improved use of qualified teaching personnel, with emphasis on specialization and expertise in instructional techniques, may utilize experienced teachers to mentor new teachers. Studies have shown that beginning teachers who receive such support focus on student learning much sooner and become more effective instructors. Additional requirements for teaching has become commonplace in many states by increasing internships and adding additional weeks to student teaching. This greater intensity of training has brought concomitant increases in salaries. Many of the chores that previously fell to the teacher can now be assigned to aides and clerks. The more difficult and technical aspects of education may then be left to professional teachers.

The Impact of Technology

Today's teacher finds many kinds of instructional aids available. In addition to relief from the clerical aspects of the business, mechanical aids and devices enrich the program and minimize its monotony. Projection machines, video recording equipment, educational television, computers, and the like are no longer looked on as threats to the job security of the teacher. Rather, they are accepted for what they are—potential supplements to upgrade and reinforce the instructional program. Computers are no longer considered luxuries for the most affluent school districts; they are now part of the ongoing instructional program in every progressive school. States are now requiring skill in educational technology for certification and recertification. State educational leaders believe that teachers should be able to use new technological tools in their instruction. It is hard to generalize about the implications of widespread adoption of educational technology, but the use of computers is a necessity.

Moursund indicated that the technological revolution has a great influence on school district budgets:

> A computer is a tool designed to aid knowledge workers, and every student is a knowledge worker. Eventually our schools should provide every student with easy and routine access to computer related technology, both as an aid to learning and as an aid to solving a wide range of problems. Every school and school district should have a long-range plan for accomplishing this task. This plan should be developed by the combined efforts of all key stakeholders—parents, teachers, school administrators, local business people, and so on.[19]

Teacher Turnover

Retention of teaching personnel has always been a big problem. Relatively low salaries, lack of socioeconomic status, apathy of students, and little opportunity for advancement have combined to discourage many teachers and cause them to leave the profession. School districts have tried to stop this loss with greater rewards for service, employment of aides and teaching assistants, better leave policies, smaller classes and lighter workloads, and other such benefits, but high teacher turnover persists. Teachers are among the most mobile of all professional workers. They tend to change positions often, always seeking but seemingly never finding the kinds of positions that they are willing to call permanent.

What are the ramifications of the problems of assignment and retention of teacher personnel from the financial point of view? What will be the net cost of paying higher salaries for the best professional teachers and lower salaries for various grades of assistants? What will be the fiscal result of the use of the vast array of technological devices that are part of the instructional program? What is the dollar effect of the extensive recruitment and in-service programs necessary to replace the large numbers of dissatisfied and itinerant teachers? The answers to these and related questions are of great concern in considering the problems of financing schools.

The states of California, Florida, and Texas, where enrollments are soaring, are hiring teachers at an unprecedented rate, which has raised another issue in teacher turnover. These states recruit teachers mostly from the midwest, "who have midwestern values" and "where salaries tend to be lower."[20] States that are losing teachers are forced to reciprocate as the pool of teachers shrink and the demand for them grows. To attract and hold talent, districts and states are hiking salaries, adding signing bonuses and beefing up benefits packages. The U.S. Department of Education predicts schools will need to hire 2 million new teachers in this decade thus exacerbating the teacher turnover problem.[21]

Another factor in teacher turnover is that "nearly half the current force will retire by 2010."[22] Many of the new hires will be replacing teachers "now in their 40s and 50s, who are expected to retire in the next decade. At the same time, the demand for smaller classes means a number of districts will have to expand their staffs beyond current members."[23]

Administrative and Supervisory Salaries

Much of the information already discussed concerning teacher salaries, schedules, and benefits applies equally well to administrative and supervisory staff members. Professionally, all certificated personnel have much the same kinds of problems. Certainly they are all striving for the same goal—the education of the nation's children. There are some differences in how rewards for services are determined for administrative and supervisory personnel, however. The main ones are:

1. The salary of the chief administrator, the superintendent of schools, is most often decided by bargaining, ostensibly on the basis of training and past record; the extent of competition for the position may also have something to do with the salary offered to the successful candidate.

2. Salaries of the administrative and supervisory staff may not fit the teacher salary schedule. Such employees receive higher salaries, for several reasons: (a) their certification requirements are higher, (b) their positions require knowledge and skills in more fields, (c) they have responsibility for the actions of more people, (d) they serve for a longer period of time each year (11 or 12 months, compared to 9 or 10 for teachers), and (e) they are usually not tenured and serve at the pleasure of the school board.

3. In the minority of school districts in which administrative and supervisory salaries are related directly to teacher salaries, there are two common ways of determining them: (a) on the basis of a stipulated number of dollars above the salary for teachers

with the same training and experience or (b) on the basis of a predetermined ratio or index involving such salaries.

4. Some districts determine the salaries on the basis of the teacher salary schedule plus additional amounts per teacher or per pupil, or both, in the school.

Noncertificated Personnel Salaries

Over the years, school administrators and boards of education have emphasized the importance of developing attractive salary schedules and providing good working conditions for certificated personnel, but they have often neglected similar conditions for noncertificated employees. The principal reason seems to be that since the purpose of the school is to provide instruction, and almost 80 percent of the current expenditures budget goes for instructional and administrative salaries, this is where emphasis should be placed. Then, too, the qualifications of noncertificated personnel vary greatly.

An important difference is that all instructional or certificated personnel serve under contract for one or more years—service that usually results in tenure after a probationary period. No such arrangement exists for most noncertificated employees. They tend to serve with no written contract and no guarantee of salary increments based only on the passage of time. Resignations and replacements are commonplace.

Fortunately, the conditions in this area of human resources have improved. Large school districts, with their need for many such employees, increased job requirements, the unionization of many of these workers, and the gradual abdication of school boards from nominating power for all school employees are some of the most important reasons for improved conditions in the employment, utilization, and retention of noncertificated personnel. These factors, along with inflation and higher taxes, have forced school districts to raise salaries and provide similar benefits that certificated personnel receive, thereby adding still another large increase to the costs of public education.

Payroll Policies and Procedures

The largest single classification of current expenditures involves payment of salaries to employees. All but one or two of the primary expenditure accounts in a school district's accounting system include provisions for the payment of salaries to employees. Only fixed charges and student-body activities would ordinarily not include salaries for personnel and under some circumstances even these may have salary money chargeable to them. Collectively, almost 80 percent of the current expenditures of a typical school district are for salaries and benefits of employees.

The size and importance of a school's payroll dictates that sound principles and procedures of payroll accounting be followed. Most of these would apply to all payroll accounting, but there are some differences. Generally accepted policies and procedures to be followed include the following as a minimum:

1. Arrangements should be made and businesslike procedures followed to guarantee payment of salaries at a specified, regular, and acceptable time. No excuses are acceptable to employees when a payroll division is unreliable and uncertain in delivering salary payments. Only emergency factors beyond the control of the business office can be justified as legitimate reasons for delay or inconvenience in paying salaries.

2. Receiving the salary payment should be made as convenient as possible to the employee, including direct deposit. The onus for delivery should rest with the school district's business office, regardless of its size, not with the individual payee. The days of requiring school employees to go in person to the school board office or the clerk's home to receive a salary check, or just to wait for the convenience of the payroll division, are only a dim memory in most districts. Even when the district is temporarily short of funds, there is provision in the law for short-term borrowing on tax anticipation notes so that a school district may operate on a businesslike basis, just as any other institution is required to do.

3. All school employees should possess written copies of rules and policies concerning payroll procedures. The rules and policies should have been established by joint suggestion and approval of representatives of the employed personnel of the district, working with representatives of the board of education. Among other things, each school employee should have easy access to the following:

a. A current salary schedule, with full explanation of increments and special provisions, if any.

b. A statement of policy related to payroll procedures as they apply to the teacher on sick leave or on leave for other reasons. The policy should state how the teacher's salary is affected when a substitute is employed and any other conditions that are directly related to leave privileges.

c. A written explanation of how all deductions required by law are calculated—federal withholding taxes, state withholding taxes, social security, and others. The employee should be able to determine whether the amounts for such deductions are correct.

d. A statement of policy concerning willingness of the district (and the conditions to be met) to withhold other deductions at the request of a school employee or a professional organization—such as membership dues in professional organizations, individual or group insurance premiums, tax-sheltered annuities, 401-Ks, and other investment programs.

e. An explanation of the options available to school employees as they relate to payroll dates for 9-month, 10-month, or yearly contracts. It is particularly important to clarify the school's policy concerning options that teachers on 9-month contracts may have concerning the summer salary payments.

f. A statement in writing concerning the procedure to be followed by an employee in the event of a salary dispute or misunderstanding.

4. A well-understood procedure should be followed in reporting to the payroll division relevant information on all individual employees before the regular paying period—days of sick leave, other leave, salary changes, and dates of beginning and ending employment in the case of employees not under contract.

Current Certification Issues

Endemic to human resource administration is the fact that educators are professionals who require certification. Just as attorneys, physicians, and dentists are certificated, teachers are, as well. In public education, certification is handled by an agency in the various states' department of education. In some states, a requirement has surfaced that teachers must pass a competency test, similar to the bar examination for attorneys. This competency test has become a hot issue. The premise for the test is that a teacher should show a basic understanding of the material that is to be taught. The antithesis to this is the argument that no written test can determine the competency of a person to *teach*. Countering that viewpoint is that the bar examination for attorneys does not demonstrate their skill in the courtroom, but it does show a basic understanding of the law—hence, a written competency test for teachers shows a grasp of subject matter to be taught. The competency test requirement has been adopted in some states, but is not required in others.

Alternative Certification

Many school districts and state departments of education are pursuing alternative certification programs. The process includes identifying and recruiting individuals with superior knowledge in such subjects as mathematics and science; a mentoring program develops their pedagogical skills. The person recruited works under the direction of a certificated teacher for a given number of years until a competency of subject matters, learning theory, and instructional science can be demonstrated.

National Certification

In 1987, the Carnegie Foundation for the Advancement of Teaching, perceiving that teachers were not properly prepared, recommended the creation of a National Board for Professional Teaching Standards (NBPTS). The mission of the organization is "to establish high and rigorous standards for what accomplished teachers should know and be able to do, to develop and operate a national voluntary system to assess and certify teachers who meet these standards, and to advance related education reforms for the purpose of improving student learning in American schools."[24] The first certificates were awarded in 1995.

By January 2001, "fewer than 10,000"[25] of the nation's about 3,000,000 teachers had met the requirements for National Board Certification. Those teachers who have become NBPTS certificated have been quoted as saying that pursuing the goals of the national standards constitutes excellence in education.[26] The first activity to meet NBPTS's goals is to submit a portfolio in three parts: student work products, videotapes of teaching, and examples of professional accomplishments. The second part is an assessment where teachers demonstrate knowledge of their disciplinary area; evaluate texts and teaching materials; analyze teaching situations; and assess student learning using their knowledge of subject matter, teaching methods, and student needs.[27] Many states and districts provide additional pay and other incentives for those teachers who have become NBPTS certificated. Feldman stated:

> In California, teachers who successfully complete the certification process get a $10,000 bonus, and the governor has proposed that if board-certified teachers agree to work in underperforming schools they will get an additional $20,000. North Carolina pays the entire $2,000 application fee for teachers who complete the National Board and it gives a 12 percent increase in the state's portion of salaries paid to teachers who win board certification.[28]

Some researchers question the effectiveness of the National Board's certification program. At the Consortium for Policy Studies at the University of Wisconsin–Madison, investigators there "looked at the effect of certification by the national board in five school districts"[29] declared that "teachers certified by the National Board for Professional Teaching Standards…don't have much effect."[30] Their findings cannot be generalized beyond the districts studied but do provide information on the relatively new system of certificating teachers. The consortium reported that "it was difficult for the principals to link any improvement in student learning to their teachers' achievement of certification. And the larger hope that nationally certified teachers would assume leadership roles in their schools and districts have not been fulfilled…. The effects of board certification has yet to be felt."[31]

Rotberg and colleagues reported that during the fourth year of the NBPTS project, interviews were conducted. The findings were that "while some teachers had reservations about the benefits of the certification process, most described it as an extremely valuable professional development experience."[32]

Justification of the national certification is that the whole country is moving toward national standards and the teaching profession finally has what other professions have long had: a way to recognize accomplished practice through national board certification.

At issue is whether national certification is an usurpation of the traditional role of states to control certification. Bar examinations for attorneys is by state, licensure for other professions is by state; why, then, should there be *national* certification for teachers? *NEA Today* stated that board-certified teachers will have clout—maybe even an attitude. After what they've been through, they're not likely to feel obliged to subscribe to the "I'm only a teacher" line.[33]

Early Retirement

As a budget-saving remedy, school boards across the country are considering early retirement incentives that provide cash bonuses or retroactive pay raises for teachers with many years of service who are at the top of the salary schedule. The rationale for this approach is that staff turnover saves the difference between the top step and the entry-level step in the single-salary approach.

Such action in microeconomics is plausible under a single-salary schedule, as it perhaps saves money for individual districts. On the other hand, considerable cost is added to state and local retirement systems. If tax resources have to be used for the benefit of retirement, and if retirement costs are a part of a total compensation package, then less money is available for current maintenance and operation expenses.

From a macroeconomic point of view, in addition to more retirement costs, educators may continue their careers in other localities, drawing retirement in one area and compensation (salary and benefits) in another. Also, the effects on the students may be considerable. Some may say the effect on students is deleterious when younger, unemployed teachers replace effective, experienced, and dedicated ones. Others maintain there is considerable advantages in replacing older, burned-out teachers with younger, enthusiastic, recently prepared teachers with new ideas and energy.

Summary

Since the salaries and benefits provided for school personnel require nearly 80 percent of the average school's current expenditures, it is obvious that the administration of human resources is a very important aspect of public school finance. The rapid rise of negotiations with teacher organizations and unions has helped make teacher salaries somewhat competitive with salaries in the private sector.

The extension of state- and district-financed benefits for school personnel in the last half of the twentieth century has done much to increase the job satisfaction of teachers. School districts must continue to provide such benefits and do what they can to keep the significantly rising costs of such benefits manageable.

Teachers as well as school patrons would do well to become better acquainted with the problems states and school districts face in financing an adequate and equitable school program. When solving the difficult problem of procuring adequate funds and spending them wisely to provide the best possible education, there is no substitute for an informed public. Along with the numerous other groups that comprise society, teachers should provide enlightened understanding in this matter. The time when school finance problems were legitimately the responsibility of one or two small segments of society has long since passed.

Trends in salary schedules in education include expanding the single-salary schedule. Technology, teacher assignment, and teacher turnover are important human resource administration concerns. Administrative noncertificated compensation with good payroll procedures for all employees are further items under consideration. Current issues in personnel administration include competency testing, alternative certification, national certification for teachers, and early retirement.

ASSIGNMENT PROJECTS

1. Provide a definition for each of the following terms: *personnel, human resources, salary schedule, single-salary schedule, indexed salary schedule, steps, lanes, merit pay, salary, benefits, certificated, noncertificated, certification, retirement, career ladders.*
2. Analyze the human resource administrative procedures in your school district and make recommendations to improve present practices.

3. From the literature, determine current trends regarding merit pay for teachers and list the arguments for and against establishing such a practice in a district.
4. Interview several teachers at a local high school and determine their opinions concerning extra pay for supplemental duties.
5. Determine how administrative, supervisory, and classified personnel salaries are ascertained in your district and in surrounding districts.
6. Prepare a defense for the argument that teachers are overpaid because they only work nine months, have all major holidays off, including two weeks at Christmas, and only work from 8:00 A.M. to 3:00 P.M.
7. Research various career ladder proposals in the states and relate these plans to the salaries, benefits, status, and professionalism of teaching as a career.

Computer simulations and questions, research exercises, and website addresses relevant to this chapter can be found at www.ablongman/edadminsite.

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CHAPTER

16 The Road Ahead in School Finance

The achievement of equitable and adequate financing of education is a never-ending quest. Make education reform the law of the land. When each and every child in the country has received a quality education we will have made history.

—Rod Paige, 2001

The reformation of school finance is progressing. However, even now, after extensive revision and improvement, some state finance programs are not consistent with prevailing educational finance theory and lack a coherent direction.

> The nation is in the midst of a dynamic period of school reform. Policymakers and leaders are facing complicated questions about educational governance, finance, policymaking, and management. Education finance is the foundation that enables schools to exist and teaching and learning to occur.... States are looking to replace outmoded finance systems with alternatives that reward performance, improve equalization, or tap nontraditional sources of funding. Local districts continue to be concerned about the adequacy, equity, and stability of school funding.[1]

The basic finance patterns that undergird the public school systems in the states are a combination of historic procedures; products of the post-*Serrano* movement of the 1970s; and the call for educational reforms, highlighted by the establishment of the U.S. Department of Education and "A Nation at Risk" report in the 1980s with the ensuing struggle to fund them. In the 1990s, the courts revisited the equity issue, and the debate over choice, charter schools, privatization, federalism, and governance led us into the twenty-first century.

The courts have been active. State school finance systems challenged in the courts have been declared constitutional or acceptable, but others have been pronounced unconstitutional. Over time, the trend in financing education has been toward greater state support, but revenue sources differ markedly. The child benefit principle was reaffirmed by the U.S. Supreme Court decision in *Mitchell* v. *Helms,* which upheld the *Agostini* tenents. However, the church/state issue as it relates to the *Lemon* test appears to seek resolution on a case-by-case basis. To predict trends in court rulings will continue to be problematic.

In some states, obsolete and unfair methods of obtaining and allocating funds still discriminate against poorer school districts, and the revenues of some systems are still inadequate or inequitably distributed. Many scholars call for complicated funding formulas that confuse the public, as well as state legislatures. Other scholars call for nearly full state funding.

These individuals maintain that education is a state responsibility and that financial support should come from that source but that local control should be maintained. A relatively uncomplicated approach utilizes local property taxes as the basis of a minimum support program that requires all taxpayers throughout the state to be assessed a uniform levy. Whatever amount the local tax does not raise toward the minimum is supplemented by the state through other tax revenues. Money allocated on a weighted-pupil formula adds to the equity of the program. Local initiative is provided by allowing some reasonable board and/or locally voted leeway.

There has been extensive progress over the years in providing more equitable financing of education for children in the United States. Local property taxation, state nonequalizing grants, equalization programs with greater state participation and responsibility, district power equalization programs, lotteries, and funding education reform have provided progress in school finance that has been little short of phenomenal. During the history of the United States, state after state has moved from high-cost and largely private school education for a few to free and reasonably equitable public education for all its citizens, with reasonably equitable burdens for its taxpayers. This has been done for the most part without destroying the tradition of local control. People have been able to retain at least limited responsibility and control over the institutions that bring education to their children.

In the wake of *Serrano* v. *Priest* (1971), equity for school children and equity for taxpayers became goals to which scores of states and millions of people previously had given no more than lip service. With the Supreme Court's decision in *Rodriguez* (1973), equalization efforts were enhanced, with the responsibility resting at the state level. The need for reform in school finance plans was still apparent among the several states in relation to their meeting state constitution requirements. Groups of interested and knowledgeable citizens outside the realm of professional education began to apply their skills and their prejudices to improving the financing of education. The federal government's role vacillated between nearly dissolving the Department of Education and embracing the "A Nation at Risk" report that made education the number-one priority in many states. World events played a role in federal involvement with education. As an example, with the collapse of the Communist regime, some advocated shifting resources from defense to social programs. That effort was tempered by unsettled conditions and uncertainty in a troubled world. The public is receptive to providing more money for education. In the *Phi Delta Kappan/Gallup Annual Poll* (September 2000), respondents indicated that funding education adequately was a high priority. Certainly, at no other time in U.S. history have so many divergent groups worked with such enthusiasm, tenacity, and apparent success to improve the quality of the educational financing system of the various states. Extensive improvements have been made and greater progress is envisioned for the near future.

The Unpredictable Future of Public School Finance

The future of school finance programs is not predictable. Before projections can be made with any degree of certainty, many questions must be answered in light of current conditions and trends of education in the future. Various groups make projections but do not declare them to be immutable. In *Renaissance Trends for U.S. Schools* by Cetron and Gayle,[2] some trends are identified that relate to educational finance.

1. Education will continue to be viewed as the key to economic growth.
2. There is a growing mismatch between the literacy (vocabulary, reading, and writing skills) of the labor force and the competency required by the jobs available.
3. A wide spectrum of school finance initiatives and experiments will be undertaken. These will range from extreme centralization and financial control at the state level on one end, and privatization on the other, where the states will finance education through vouchers to parents (based on their choices of schools) rather than by directly financing schools. Between these extremes, there will be many traditional programs, but with an increasing number of private-sector partnerships.
4. Regional disparities of educational sources will increase.
5. The number of public school enrollments in the United States will increase.
6. Only 15 percent of the jobs will require a college diploma. More than half of all jobs will require postsecondary education and training.
7. Equity issues will become the major problems faced by policymakers. Legal challenges will increase as standards are raised.
8. Educational equity will be redefined, not in terms of access, but in terms of expenditures.

Elusive forces that educational leaders must consider in determining the education structure includes analyzing the future in relation to these data:

1. *Demographics*
    - *Enrollment:* will continue to increase
    - *Enrollment shift:* certain states will lose enrollment and other states will gain it
    - *Growth in urban areas:* with its attendant problems
    - *Family makeup:* dramatic alterations in the typical family, more children by teenage mothers, and more single-parent families, and more latchkey students
    - *Minorities:* major growth of numbers in the public schools
    - *Immigrants:* a call for a greater emphasis on providing education to the growing percentage of immigrants who are reported to be living in poverty
    - *Inflation/deflation:* its impact on school budgets
2. *Interest rates.* Districts often depend on interest money for additional revenue to stretch tight maintenance operation budgets; interest rates will affect bonding in capital-outlay budgets.

3. *Tax limitation measures.* There will be an increase to control taxes, and some states will demand limitations.
4. *Federal deficit/surplus.* Past decades have resulted in an epic proportion of interest payments on the national debt. In 2000, it shifted to an economy that has produced a surplus.
5. *Risk management.* Analyzing preventive measures of risk often require unexpected expenditures.
6. *Benefits.* Increases will be seen in health and accident insurance premiums, social security, and retirement benefits.
7. *Personnel needs.* In some states, there will be a teacher shortage; in others, the need will be for a reduction in staff.

Unresolved Issues

All these facts raise questions such as: Who should be educated at public expense? To what grade level should free education be provided? Will the states cut back education programs if revenues diminish? Will the states provide adequate funds to sustain their current programs at their desirable or optimum levels? Should the states continue to increase their share of the revenue mix even if it results in the loss of local control of education? Is inadequacy of funding a matter of lack of ability to pay, the problem of taxpayers' lack of willingness to pay, and/or the demographics of a particular state? Other significant and relevant questions are:

1. What are useful innovative models for financing public education? How can states and local school districts provide adequate, stable funding? Are there good finance models that would lessen local dependence on a limited local tax base?
2. How can school finance systems be linked to performance?
3. How can states finance the costs of designing and implementing new assessment systems?
4. How can states and local districts keep up with the demands for facilities created by rising enrollments? How can they finance repairs and renovations of aging infrastructure?
5. What is the impact of special education costs on general education budgets?
6. How can states increase local flexibility yet continue to exercise meaningful accountability for educational quality and equity?
7. What are the governance, finance, and management implications of the demographic changes shaping education?
8. How do investments in technology affect children's learning? Which technology investments are most cost effective? How can states and districts finance equitable access to technology?
9. What should be the responsibility for each of the three levels of government? How can policymakers with different philosophies more effectively coordinate local, state, and federal funding streams?

10. How can states monitor the operations and measure the quality of charter schools and choice schools? How cost effective are the various choice models? How do choice programs affect the quality, governance, demographics, and funding of public schools?[3]

These, along with many other related questions, now face the public school systems of this country. Crucial problems that schools face are not always clearly evident. The dilemma of finding sufficient revenues to finance public education will continue to plague many states. Education is considered by citizens of the United States to be of high priority and importance. Progress and improvement usually occur over time, in spite of temporary setbacks. There is no valid reason to believe that this will not continue.

Some Characteristics of Educational Structure

Certain important elements must serve as the basis for all educational structures and solutions to the financial problems of the day. Education rests on several basic assumptions that receive general but not universal support. Some are more readily accepted than others; some rest on firm and long-accepted opinion and practice; and some seem destined to undergo periodic change. Various principles that this text has accepted include the following:

1. The perpetuation of the U.S. form of government is dependent on an informed citizenry, and that can only be attained by the operation of free public schools.
2. Education is a state function because of interpretation of the Tenth Amendment to the U.S. Constitution and the provisions in many state constitutions that declare education to be a state responsibility. Financing it is also a state responsibility, for the same reasons.
3. State responsibility for education includes the right of the state to require compulsory attendance.
4. Education enhances the economic development of a country and is an investment in human capital.
5. Education helps protect individual freedom.
6. Education is no longer regarded as a privilege for those who can afford it.
7. Public funds used to establish or to aid operation of public schools must meet the *Agostini* tenants upheld in *Mitchell* v. *Helms* and meet the criteria of the *Lemon* test.
8. Public funds cannot be used to prevent desegregation or integration of minority groups.
9. School finance programs that provide equal dollars per student lack equity and fairness; weighted-pupil units are a fairer measure of need.
10. A state's or nation's efforts to support education are more important for social and economic progress than the extent of natural resources found within its boundaries.
11. All but a few citizens should pay taxes for the services of government, especially education; some may miss one or more forms of taxation, but few should miss all forms.

12. The ability-to-pay principle of taxation and the benefit principle are both justifiable in providing funds for education.
13. Education is not just a necessary "evil" sponsored and financed by government; it is an investment in future generations.
14. Providing adequate funds for education will give a district or a school the opportunity to produce (but will not guarantee) a good educational program; inadequate funds, however, will guarantee a poor program.

School Finance Goals

In the years ahead, school finance programs will undoubtedly change, but in what direction? It is hoped that reform will continue in the direction of providing greater equity of revenues to school districts on the basis of real need and greater equity in sharing the costs on the basis of better measures of ability to pay. School finance programs in the future should:

1. Support high-level education to provide programs appropriate to the unique needs and personal differences of children.
2. Provide a high degree of equity and equality of educational opportunity for all children.
3. Provide greater state financial support of education but at the same time leave much of its control in the hands of local school boards.
4. Clarify the role of each of the three levels of government in financing education and determine the proportionate share of cost that each should pay.
5. Assure that minority children attend 12 years of schooling in the same proportions as children from nonminorities.
6. Provide school finance laws that recognize not only the problems and inequities in small schools but also those in large city districts.
7. Eliminate the amount of adult and child illiteracy that continues to exist, in spite of the nation's free educational system.
8. Apply appropriate legal answers to the controversial problem of allocating public funds for the operation of nonpublic schools.
9. Make major improvements in the assessment and administration of the property tax.
10. Provide less restrictive procedures for local districts to pay for capital improvements and provide additional state support. This involves equitable practices in securing funds for capital outlays.
11. Eliminate fiscal dependence on other governmental bodies for those districts that still must operate under this handicap.
12. Provide financial support on an equitable basis for extension of the school year well beyond the nine months now used in most school districts.
13. Provide free education to adults who did not obtain it in their younger years but who now seek it for cultural, social, or economic reasons.
14. Extend the years of formal education downward to include early childhood programs, particularly for the disadvantaged.

15. Solve the problem of teacher-board negotiations in such a way that all additional funds provided by legislative bodies to improve local school district educational programs are not funnelled into salaries, to the detriment of other important parts of the school program.
16. Develop a way to educate people who are denied a fruitful life by a lack of education and vocational skills.
17. Prepare students to compete in the worldwide economy.

The Challenge

The twenty-first century is fraught with challenges for local boards of education and administrators who must determine the direction for education. There is greater involvement than ever before from forces that are influencing local decisions and in one way or another will affect the financing structure.

> Many current school reform initiatives involve new ways of structuring and organizing education. Some reforms seek to revise the relationships among the various levels of government or between the public and private sectors. Many reforms also aim to restructure classroom processes or the roles of teachers and students.
>
> Greater attention to outcomes and higher standards for student learning require new ways of holding schools accountable for results. Policymakers and educators are grappling with how to design and implement accountability systems that are meaningful, fair, and cost effective. They face complex, politically charged decisions about how to measure and report the progress of schools with widely varying demographic profiles. They are also looking for accountability approaches that effectively motivate students and staff.
>
> In an era of limited resources and wavering citizen confidence in public education, policymakers and taxpayers are asking to see demonstrable returns on their education investments. They want assurances that schools are using resources efficiently to increase student achievement.[4]

The National Institute on Educational Governance, Finance, Policymaking and Management released a document entitled *Meeting the Information Needs of Educational Policymakers.* The report was developed by a broad spectrum of leaders in various fields with an interest in the future of education. It is imperative that school administrators consider the relevance of these salient finance-related issues as they plan for "the road ahead."

1. Policymakers and educators are debating profound governance changes, including charter schools, vouchers, and other public or private choice options. Despite some increased flexibility, local school leaders still express frustration with the cumulative effect of certain state and federal mandates.
2. Improving instruction is the ultimate purpose of school reform.Therefore, ambitious reform agendas are unlikely to succeed unless they include strategies for providing professional development to current teachers and improving the preparation of prospective teachers.

3. Policymakers and education leaders are looking for effective ways to attract and retain the best new teachers, to help teachers implement standards-based reform, and to make coherent reforms in the whole enterprise of teacher preparation and professional development.
4. There is an emerging consensus that "school reform must be a community-wide enterprise, carried out through partnerships with parents, business, social service agencies, and other community institutions."
5. Restoring public confidence in public education is a major challenge in an era when a minority of the voting public has children in school and more parents are looking to private schools and choice alternatives for quality education.
6. Although many citizens support education reform in general, they may disagree on the specifics or may be unprepared to accept the costs, discomfort, and time lines required to make significant changes.
7. Demographic and social changes are creating new governance, finance, and management challenges for education. Different kinds of children may require different methods of instruction to achieve at high levels.
8. Social problems—such as poverty, drugs, and crime—are affecting children's health, safety, and readiness to learn and are creating new demands for human services. Schools are already asked to do many things that divert energy and funding away from their main mission of teaching children.[5]

Educators in past generations may debate that these issues are no more critical than those they experienced. This may be true in some respects. However, these challenges facing future education leaders would indicate that some of the finest minds and most capable persons are needed to meet the demands of educating the youths of this nation. Any list of unsolved problems in financing education could be extended to any length, but there is little value in doing so. The point is that in spite of progress and reform of considerable proportions, there is much to be done to improve the financing of education in this country. No reasonable person expects that this will be achieved or that all the problems involved will ever be solved, for the solution of one difficulty often creates others. But educators, legislators, and parents have the responsibility and the challenge to work toward these and other desirable goals. The price may be high, but the rewards are great, in terms of the future of millions of children.

Summary

School finance reform in the twenty-first century will be affected by economic conditions, inflation or deflation, taxation policies, legislation, philosophies, and court action. Progress will continue to be enhanced by the actions of numerous states supporting improvements. The new laws that are enacted will continue to bring greater equity and excellence to the financing of education, in the interest of the children who are being educated, but also with greater equity and fairness to the taxpayers who pay the costs.

School finance reform is an ongoing process that is necessary in the operation of public schools. Just as in the past, mistakes will be made in the name of reform. Progress will often be followed by reversals. Over time, innovations and changes will continue to keep public school education in the forefront of the achievements of the United States.

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APPENDIX

Some Important Federal Programs

The following outline summarizes some important federal activities that have contributed to U.S. education in the last two centuries. The list is not intended to be complete; the total number of such programs is not known and their total impact on education can never be measured. They are listed here in terms of general purpose rather than in a strictly chronological order. Discussion of most programs is brief, and objective evaluation has not been attempted.

Federal Educational Activities

1. Ordinance of 1785 (land grants)

1.1 Provided: "There shall be reserved the Lot No. 16 of every township for the maintenance of public schools, within said township."

1.2 A result of New England colony policy of granting lands to endow education.

2. The Northwest Ordinance of 1787 (land grants)

2.1 Based on the Bill of Rights for Education—"Religion, morality and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged."

2.2 Became effective when Ohio became a state in 1802, with the provision that Section 16 of every township should be "granted to the inhabitants of such township for the use of schools." In 1803, Congress provided that control of such land shall "be vested in the legislature of that state." This policy was followed from 1802 to 1848; 12 states received such a grant.

2.3 When the Oregon Territory was established in 1848, Congress provided for Sections 16 and 36 to be given for education to states newly entering the Union; 14 states received such a grant.

2.4 Utah (1896), Arizona (1911), and New Mexico (1911) received Sections 2, 16, 32, and 36 for education.

2.5 Strengthened the position of the states as responsible agents for education; was a real factor in helping the states build their public school systems; a few states managed their lands and funds wisely, whereas others were guilty of gross mismanagement.

412

2.6 A good example of general federal aid to education without federal control; guidelines may have been unwisely omitted—they would have reduced mismanagement.

3. Other land and money grants (1802 to 1850)
  3.1 Grants of funds in lieu of land grants in Indian territory.
  3.2 Land grants under the Internal Improvement Act of 1841.
  3.3 Saline land grants (beginning in 1802).
  3.4 Grants of 5 percent of the funds received by the federal government from the sale of public lands in the states.
  3.5 Payments to the states of 25 percent of income from national forests and 37.5 percent received from the extraction of nonmetallic minerals for the benefit of roads and public schools.
  3.6 Allocation of surplus federal revenues to the states (1836).

4. Morrill Acts (establishment of agricultural colleges)
  4.1 Morrill Act (1862) provided federal land grants of 30,000 acres of land for each senator and representative in Congress for establishment of a college or colleges "where the leading object shall be, without excluding other scientific and classical studies, and including military tactics, to teach such branches of learning as are related to agriculture and the mechanic arts—in order to promote the liberal and practical education of the industrial classes in the several pursuits and professions of life."
    4.11 Received much opposition at first; viewed as encroachment by the federal government.
    4.12 Began the policy of federal restrictions and controls; the first categorical aid law.
    4.13 A significant decision by government that made possible a national system of higher education.
  4.2 Second Morrill Act (1890)
    4.21 Strengthened the original act by providing funds to each state "to be applied only to instruction in agriculture, the mechanic arts, the English language and the various branches of mathematical, physical, natural, and economic science."
  4.3 All states benefited from the Morrill Acts; 69 land grant colleges were established in the 48 states and 3 territories.
  4.4 Control over these colleges has been negligible; their curricula have been liberalized well beyond their original emphasis on agriculture and engineering.

5. Acts supplementing the activities of the land grant colleges
  5.1 The Hatch Act (1887) provided for each land-grant college the establishment of experiment stations for the purpose of conducting research in agriculture.
  5.2 The Hatch Act, along with the Adams Act (1906), the Purnell Act (1925), the Bankhead-Jones Act (1935), the Research and Marketing Act (1946),

and others, contributed greatly to experimentation in agriculture, with the result that the United States became the most productive of all nations.

6. Vocational education acts
- 6.1 The Smith-Lever Act (1914) provided for extension services by home demonstration agents, by 4-H leaders, and by county agricultural agents, and for services and professional training of such teachers.
- 6.2 The Smith-Hughes Act (1917) provided about $7,000,000 annually in funds for precollege-age vocational education; annual appropriations provided for vocational education in agriculture, home economics, and trades and industry.
  - 6.21 The first special-purpose grants made to public schools by Congress.
  - 6.22 Strongly influenced public education toward its vocational programs.
  - 6.23 The Smith-Hughes Act was broadened by the George-Reed Act (1929), the George-Ellzey Act (1935), the George-Deen Act (1937), the George-Barden Act (1946), and the Vocational Education Act (1963; as amended).
- 6.3 George-Deen Act for the same purposes as the Smith-Hughes Act and added distributive education.
- 6.4 George-Barden Act increased funds for vocational education: its Title II provided federal funds for practical nursing education; it provided for many federal restrictions and controls.
- 6.5 National Defense Education Act (1958); Title VIII amended the George-Barden Act, adding a new Title III authorizing $15 million annually for area vocational schools (for five years).
- 6.6 Vocational Education Act (1963): regarded by many as a milestone in vocational education history; provided grants-in-aid to the states; one-third to be spent for the construction of area vocational schools or operating programs for out-of-school youths.
- 6.7 Education amendments (Title II—1976)
  - 6.71 New programs in vocational education—to provide youth part-time employment, improve innovative vocational programs, conduct dropout programs for youths in areas of high unemployment, eliminate sex stereotyping in vocational curriculum areas.
  - 6.72 To provide discretionary funds to support projects designed to improve the nation's vocational education programs; to provide special grants for [American] Indian tribes and organizations; to provide opportunities for full-time study by vocational education teachers; to encourage persons to become teachers of vocational education; and to provide for emergency remodeling and renovating of vocational facilities.

7. School lunch programs (1935–)
- 7.1 In 1935, the newly established Federal Surplus Commodities Corporation provided for surplus foods to be distributed to schools for lunches for pupils.

7.11 Expanded in 1940 to include milk.
7.12 Later the Department of Agriculture began to make cash payments to reimburse part of the food costs of school lunches.

7.2 The School Lunch Act (1946) (as amended) "as a measure of national security, to safeguard the health and well-being of the nation's children and to encourage the domestic consumption of nutritious agricultural commodities and other food by assisting the states through grants-in-aid and other means."

7.21 Distribution was to be on an equalization basis.
7.22 Required state matching funds on a progressively increasing ratio.
7.23 Available to both public and nonpublic schools.
7.24 Amended in 1962 and 1963 to direct more federal funds to areas of low wealth.
7.25 Participating schools were required to (1) serve lunches that meet prescribed nutritional standards, (2) use foods declared by the Department of Agriculture to be in abundance, (3) provide free lunches for children unable to pay for them, and (4) maintain adequate records for federal auditing purposes.

7.3 National School Lunch and Child Nutrition Amendments (1977)

7.31 Provides cash grants and donations for breakfasts for school children, a special milk program, grants to schools in low-income areas for the procurement of equipment, funds to assist states in operating summer month programs, funds for special school projects, and grants for development of comprehensive nutrition information and education projects.

8. Relief and emergency programs

8.1 Civilian Conservation Corps (CCC) (1933–1943): an act designed to relieve unemployed youth by "restoration of the country's depleted natural resources and the advancement of an orderly program of useful public works."

8.11 Work relief for men 17–22 years of age.
8.12 Helped restore depleted natural resources.
8.13 Provided camps where enrollees were housed and provided for low wages while they built dams, bridges, picnic areas, and did other useful work.
8.14 Carried on organized educational activities that became a kind of parallel school system rivaling state school systems in some respects.

8.2 National Youth Administration (NYA) (1935–1944): Established by executive order of the president.

8.21 Organized to provide work relief for unemployed youth 16–25 years of age.
8.22 Provided part-time employment in practical activities.
8.23 Enabled some secondary school and college students to continue their education; many others learned occupational skills.

8.3 The Federal Emergency Relief Administration (1933)
  8.31 Superseded by the Works Progress Administration in 1939.
  8.32 One of the many "pump-priming" activities of the federal government designed to get money in circulation and bring economic relief to people during the Depression.
  8.33 Conducted programs in school building construction and maintenance, adult education, vocational rehabilitation, and in many other areas.
8.4 Public Works Administration (PWA) (1933)
  8.41 Made grants for public building construction on a 30 percent of cost basis; later 45 percent.
  8.42 Made loans for school construction.
8.5 These emergency programs were inaugurated as relief measures during the Depression of the 1930s. Stimulation of the economy was the main consideration; educational programs and benefits were secondary in importance.
8.6 Youth Employment and Demonstrative Project Act (1977)
  8.61 Amended the Comprehensive Employment and Training Act of 1973. Designed to establish a program with significant long-term impact on youth employment and career opportunities.
8.7 Emergency School Aid Act

9. Programs in the war on poverty
9.1 Area Redevelopment Act (1961)
  9.11 Aimed at areas of poverty.
  9.12 Established programs to alleviate conditions of unemployment by providing for orderly referral of unemployed people who could benefit from occupational training.
9.2 Manpower Development and Training Act (1962)
  9.21 "The purpose of this act is to require the federal government to appraise the manpower requirements and resources of the Nation, and to develop and apply the information and methods needed to deal with the problems of unemployment resulting from automation and technological changes and other types of persistent unemployment."
  9.22 Aid for vocational education to help solve economic problems.
9.3 Economic Opportunity Act (1964)
  9.31 "To eliminate the paradox of poverty and pools of long-term joblessness in the midst of plenty in the nation by opening to everyone opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity."
  9.32 Provided vocational education and training in the Job Corps; focused on the special needs of a small minority of youths who because of educational deficiency are at a competitive disadvantage in the labor market.

9.4 Head Start (Title V, Economic Opportunity Act of 1967, as amended)
  9.41 The program was designed to assist economically disadvantaged preschool children with a range of developmental services.
9.5 Follow Through (1981)
  9.51 Designed to assist in the development of economically disadvantaged children in kindergarten through third grade and to continue working for educational gains achieved in Head Start Programs or other high-quality preschool programs.
9.6 Comprehensive Employment and Training Act (1973)
  9.61 Title I provided job training and employment opportunities for economically disadvantaged, unemployed, and underemployed.
  9.62 Title II provided for public service employment in areas of high unemployment.
9.7 Emergency Jobs and Unemployment Act (1974)—Title VI designed to help establish job opportunities for low-income unemployed.
9.8 Teacher Corps (Education Amendments, 1976)—to establish a program for education opportunities for children in low-income areas.

10. High-quality education programs
10.1 The National Science Foundation (1950–)
  10.11 The Foundation was created "to promote the progress of science; to advance the national health, prosperity and welfare; to secure the national defense; and for other purposes."
  10.12 Provided no direct funds for school districts or state departments of education.
  10.13 Provided for payments to colleges and universities, and to nonprofit research and professional organizations.
  10. 14 Its programs were established to help increase the number of science and mathematics teachers and provide new instructional materials for public schools.
10.2 National Defense Education Act (1958)
  10.21 Purposes: to strengthen national defense by increasing the supply of competent teachers; provided financial assistance to public schools to improve instruction in mathematics, science, and foreign languages; encouraged states to improve guidance programs; provided funds for research in the use of instructional media.
  10.22 Its provisions were extended in 1963 to include other areas and functions.
10.3 The Cooperative Research Program (1954)
  10.31 Program was established in the U.S. Office of Education to contract with higher education institutions to conduct research, surveys, and studies in education.
  10.32 Funds allotted were very limited; results were good in shaping and defining educational research.

10.4 National Endowment for the Arts and the Humanities Act (1965–) and as amended
  10.41 Funds made available to develop aesthetic awareness of the arts, and to strengthen teaching and learning of the humanities.

10.5 Environmental Education Act (as amended)
  10.51 Supports research and demonstration through pilot projects with environmental quality and ecological balance.

10.6 Educational amendments (1978)
  10.61 Preschool Partnership Program—to provide a more successful transition of Head Start students in regular school programs.
  10.62 Health Education—a program to prepare students to "maintain physical health and well-being and prevent illnesses and diseases."
  10.63 Biomedical sciences—encourages economically disadvantaged students to pursue a career in biomedical science.

10.7 Elementary and Secondary Education Act (1965)
  10.71 Considered a "breakthrough" in the controversy over federal aid.
  10.72 Authorized more than $1 billion for education.
  10.73 Contained "titles" authorizing educational programs for educationally deprived children of low-income families, improvement of school libraries and instructional material centers, stimulation of educational research, and improvement of state departments of education.
  10.74 Designed to help bring economic and social equality to blacks, the poor, the underprivileged, and the educationally disadvantaged.
  10.75 Elementary and Secondary Education Act (1965) as amended (1978). Title I—to extend and improve compensatory education in state-supported schools.
  10.76 Education and Consolidation and Improvement Act (ECIA-PL 97-35)(1982), Hawkins-Stafford School Improvement Amendments of 1988.
  10.77 Chapter 1 superseded Title I of original Elementary and Secondary Education Act of 1965 and subsequent amendments. Very little change from that legislation, but does allow local education agencies more leeway.
  10.78 Chapter 2 established a single block grant for the states, incorporating some 30 categorical programs from older legislation.
  10.79 Reauthorized programs operated directly by the state educational agency, including Migrant Education, Neglected and Delinquent Children, etc.

11. Improving America's Schools Act (1994–) A Summary

The Act is a reauthorization of the Elementary and Secondary Education Act and extends the program for five years.

11.1 Title I—Helping Disadvantaged Children Meet High Standards
  11.11 Title I Compensatory Education

  - 11.12 Even Start Family-Literacy programs
  - 11.13 Education of migratory children
  - 11.14 Prevention and intervention for children and youths who are neglected and delinquent and at risk of dropping out
  - 11.15 Assist districts serving eligible private school students. May establish school-choice programs.
  - 11.16 School improvement activities.
- 11.2 Title II—Dwight D. Eisenhower Professional-Development Program
  - 11.21 National teacher-training program
  - 11.22 Partnerships of school districts, community groups, higher education institutions, and teachers unions to promote professional development.
- 11.3 Title III—Technology for Education
  - 11.31 Technology for Education of All Students
  - 11.32 Star Schools—Distant learning activities
  - 11.33 Ready-to-Learn Television
  - 11.34 Telecommunications Demonstration Program for Mathematics
  - 11.35 Elementary and Secondary School Library, Media Resources Program
- 11.4 Title IV—Safe and Drug-Free Schools and Communities
  - 11.41 For states, districts, community-based organizations higher education institutions, and nonprofit organizations in high-crime areas to implement crime and drug abuse prevention programs.
- 11.5 Title V—Promoting Equity
  - 11.51 Magnet Schools Assistance
  - 11.52 Women's Educational Equity
  - 11.53 Assistance to Address School Dropout Problems
- 11.6 Title VI—Innovative Education Program Strategies
  - 11.61 Provides higher per-pupil allocations to school districts that have the greatest numbers or percentage of children whose education imposes a higher-than-average cost per child.
- 11.7 Title VII—Bilingual-Education, Language-Enhancement, and Language-Acquisition Programs
  - 11.71 Bilingual Education
  - 11.72 Foreign-Language-Assistance Program
  - 11.73 Emergency Immigrant Education Program
- 11.8 Title VIII—Impact Aid
  - 11.81 Authorizes for basic support payments to districts in compensation for property-tax revenue lost due to the presence of federal property or workers.
  - 11.82 Eligibility determined by children whose parents live and work on federal property and children whose parents are in the military.
- 11.9 Title IX—American Indian, Native Hawaiian, and Alaska Native Education
  - 11.91 Revenue for districts educating at least 10 American Indian children, who must also comprise at least 25 percent of total enrollment.

11.92 Native Hawaiians—for such programs as family-based education centers, college scholarships, special education, and teacher training and recruitment.
11.93 Alaska Native Education—for such purposes as teacher training and recruitment, preparing students from rural areas for public schools, and home-based education for preschool children.
11.10 Title X—Programs of National Significance
11.101 Fund for the Improvement of Education—Secretary of Education's discretionary fund.
11.102 Gifted and Talented—model programs, professional development, or implementing strategies such as peer counseling, cooperative learning, and service learning.
11.103 Public Charter Schools—aid to districts (via states) that want to establish charter schools.
11.104 Arts in Education—to improve education in the arts and culture.
11.105 Inexpensive Book-Distribution Program—to support Reading Is Fundamental.
11.106 Civics Education for the Center for Civic Education to continue a program called "We The People…The Citizen and the Constitution."
11.107 Allen J. Ellender Fellowship Program—provides for scholarships for low-income students under the Close-Up Foundation program, which brings students to Washington to learn about the federal government.
11.108 De-Lugo Territorial Education Improvement Program
11.109 21st Century Community Learning Centers—provides grants to develop or expand projects "that benefit education, health, social-service, cultural and recreational needs of a rural or inner-city community."
11.110 Urban-and-Rural Education Assistance—provides grants to help rural and inner-city schools improve student performance.
11.111 National Writing Project
11.112 The Extended Time for Learning and the Longer School Year—grants to districts as seed money to help them expand the learning day and year.
11.113 Territorial Assistance—general assistance to the Virgin Islands.
11.11 Title XI—Coordinated Services—allows schools, consortia of schools, or districts to use E.S.E.A. money to coordinate the delivery of education, health, and other social services.
11.12 Title XII—School Facilities Infrastructure Improvement Act—provides grants for school construction, renovation, and repair.
11.13 Title XIII—Support and Assistance Programs to Improve Education
11.131 Comprehensive Regional Assistance Centers
11.132 National Diffusion Network
11.133 Eisenhower Regional Mathematics and Science Education Consortia

- 11.14 Title XIV—General Provisions
  - 11.141 Flexibility in the use of administrative and other funds
  - 11.142 Coordination of programs; consolidated state and local plans and applications
  - 11.143 Waivers and uniform provisions
  - 11.144 Gun Possession—requires states to enact laws, and districts to enact policies, expelling for a year students who bring guns to school. Allows local officials to make exceptions on a case-by-case basis.
- 11.15 National Education Statistics
  - 11.151 Provides for continuing operation of the National Center for Education Statistics and the Advisory Committee on Education Statistics.

12. Programs of direct federal responsibility

- 12.1 The Citizenship Act of 1924
  - 12.11 Accelerated the shift of Indian education from predominantly church-operated schools to federally operated schools.
- 12.2 The Johnson-O'Malley Act (1934)
  - 12.21 Authorized contracts with the states for the education of Indians.
- 12.3 A variety of educational programs, principally vocational, for adult Indians.
- 12.4 Federal programs for veterans include:
  - 12.41 The Vocational Rehabilitation Program of 1943 for disabled veterans emphasized the need for vocational advisory services and vocational rehabilitation training.
  - 12.42 The G.I. Bill of Rights (Servicemen's Readjustment Act of 1944)—to encourage the education of war veterans. The bill resulted in benefits to thousands of World War II and other war veterans.
  - 12.43 War Orphans Educational Assistance Act of 1956
  - 12.44 Veterans' Readjustment Assistance Act of 1952
- 12.5 Indian Self-Determination and Education Assistance Act (1974)
  - 12.51 Allows American Indian organizations to operate their own programs under contractual agreement with the government.
  - 12.52 Provides for vocational training and employment for Indians.
- 12.6 Indian Elementary and Secondary School Assistance Act (P.L. 81-874)
  - 12.61 Assist with special educational needs of American Indian students.
  - 12.62 To plan, develop, and implement supplemental programs and program centers to increase American Indian student educational opportunities.
  - 12.63 To improve educational opportunities for American Indian adults.

13. Federal programs in lieu of taxes

- 13.1 The federal government uses three different methods to determine how much it should pay local school districts or other local units of government in lieu of funds lost by the tax-exempt status of federal property.

13.11 Payments based on the value of the federal property multiplied by the local tax rate (for some types of tax-exempt property).
13.12 Payments from public lands included 12.5 percent of revenue from grazing fees in national grazing districts, 50 percent of grazing fees on other federal lands, and 37.5 percent of revenues collected from mineral rights on federal lands.
13.13 The use of Public Laws 815 and 874. Here federal payments are related to the number of public school children that are added to the school district because of federal programs. Public Law 815 provided funds for the construction of school facilities; 874 provided operating funds in eligible impacted areas.

14. Special emphasis programs
  14.1 Special Projects Act—Education Amendments (1974 and 1978)
    14.11 Career Education—to demonstrate teaching career education.
    14.12 Metric Education—to encourage teaching of the metric system.
    14.13 Gifted and Talented Children Program—funds for planning for teaching the gifted.
    14.14 Community Education—to expand and improve community education.
    14.15 Women's Educational Equity Program—to eliminate sex inequities in policies and practices in education.
    14.16 Elementary and Secondary School Arts Education—to promote integration of the arts into public schools.
  14.2 Basic Skills Improvement Education Amendments (1978)—funds for planning and evaluating programs dealing with basic skills.
  14.3 Improvement in Local Educational Practices—Title IV-C Education Amendments—1978. To help meet needs of local education agencies.
  14.4 Bilingual Education Act (90-247) (amended)—to promote programs utilizing bilingual concepts in teaching children with limited English-speaking ability.
  14.5 Indo-Chinese Refugee Children Assistance Act (1976)—to assist in educating students from Viet Nam, Cambodia, and Laos.
  14.6 School Finance Study (1978). Funds for a national study of school finance.
  14.7 Aid for Neglected and Delinquent Children (ESEA, 1965), (as amended)
    14.71 Provides aid for state agencies that are responsible for providing special education programs for children in institutions for the neglected and delinquent or in adult correctional institutions.
  14.8 Migrant Education (ESEA 1965) (amended)—a program designated to meet special educational needs of migrant children of agriculture workers and fishermen.

15. Education of the handicapped
  15.1 Education of the Handicapped Act, Title VI (P.L. 91-230).

    15.10 Provides for free services, instructional media, preschool programs, auxiliary services, increases in the numbers of teaching personnel who teach the disabled.
  15.2 Education of the disabled (amended).
    15.21 Funds for development of demonstration projects, research programs including physical education and recreation.
    15.22 Funds for programs for postsecondary or adult programs for the disabled.

16. Desegregation programs
  16.1 Education Amendments (1972–1974)—to assist in decreasing isolation of minority groups, support innovative programs for improving academic programs of minority children, enhance intercultural and interethnic understanding, to provide support of special programs such as art and mathematics.
  16.2 Civil Rights Act (1964)—to assist school systems and school personnel in resolving problems related to educational desegregation.
  16.3 Emergency School Aid Act—and as amended by Educational Amendments (1976). A program for the development of magnet schools and planning neutral sites in cooperation with universities and businesses.

The foregoing examples of federal activities in education illustrate the diversity and the extent of such programs. The list could easily be extended, but to no useful purpose. The average reader will no doubt approve highly of some but question the contribution of others to U.S. education. Some will criticize the imbalance that many of these federal activities have tended to create in the public schools, and others will accept them in lieu of more appropriate general federal aid to education.

INDEX

- AASA (American Association of School Administrators), 204
- *Abbott* v. *Burke*, 233
- *Abbott* v. *Burke II*, 233
- Ability principle, 22, 27
- Ability-to-pay principle, income tax, 127–128
- Accidents, liability insurance, 350–351, 355–356
- Accountability:
  - public demand for, 52
  - responsibilities in, 52–53
- Accounting functions:
  - auditing, 330–334
  - cash receipts, management of, 335
  - expending funds, 328–329
  - financial reporting, 329
  - protection of school funds, 319, 334
  - receipt and expenditure accounts, types of, 323
  - receiving/depositing funds, 328
  - school level, 303–306
- Accounting system:
  - accrual accounting, 326–327
  - clearing accounts, 324–325
  - computerized systems, 327–328
  - cost accounting, 326
  - encumbrance accounting, 325–326
  - handbooks of accounting, 323–324
  - principles and procedures for, 321–322
  - purposes of, 320
  - standard accounting practices, 322–324
- Accrual accounting, 326–327
  - advantages of, 327
- *ad valorem*, 123
- Administrators, salaries, 380–381
- Advisory Committee on Intergovernmental Relations, 176
- *Agostini* v. *Felton*, 252, 255, 388, 392
- *Aguilar* v. *Felton*, 247, 252, 254
- Aid for Dependent Children, 50
- Alaska:
  - capital outlay, 276
  - facilities, 276
  - power equalization plan, 178
  - public funds to nonpublic schools, 250, 262
  - severance tax, 131–132
- Alexander, Lamar, 214
- AMERICA 2000, national goals for education, 201–202
- American Association of School Administrators (AASA), 204
- American Federation of Teachers (AFT), 152
- American Youth Policy, 33, 34
- Arizona, 169
  - tuition tax credit, 260
- Arthur, Chester, 198
- Articles of Confederation, 165
- Assessment:
  - property tax assessment, 70–71, 124–125
  - reassessment and local district revenues, 102, 124–127
- Atkinson index, 74
- Auditing, 330–334
  - and administrators, 334
  - annual, 330, 332
  - audit reports, 333–334
  - auditor, selection of, 333
  - continuous audits, 331
  - external audits, 331–332
  - internal audits, 331
  - preaudits, 332
  - purposes of, 330
  - state audits, 331
- Average daily attendance (ADA), 85–86, 104
- Average daily membership (ADM), 72, 85–86, 104

- Baby boomers/boomlet, 39, 43
- Barnard, Henry, 166
- Bell, Terrel H., 214
- Benefit principle, 22
  - of taxation, 22
- Benefits, 374–377
  - advantages of, 374
  - issues, 377
  - retirement, 375, 384–385
  - types of, 375–376
- Benson, Charles S., 6, 14, 60, 234
- Bereavement leave, provisions for, 376
- Berne, Robert, 93
- Bidding, for equipment/supplies, 344–345
- Bill of Rights, 92, 166, 249
- Block grants, 202, 206
  - nature of, 203
- Board leeway, 83–84
- Bonding, of school officials, 334–335
- Bonds, 280–288
  - advantages/disadvantages of, 280–281
  - amortization schedules, 284–285
  - bond attorney, 284
  - bonding authority, 287–288
  - bonding power, 287–288
  - callable bonds, 282
  - as debentures, 284
  - rates, 283
  - refunding bonds, 285–287
  - registration of, 282–283
  - sale of, 283
  - serial bonds, 281–282
  - straight-term bonds, 282
- Borjas, George J., 54
- Bottomry, 347
- Boyer, Ernest T., 149
  - topics, 369
- *Brown* v. *Board of Education*, 92, 198, 218, 220
- Budget:
  - accompanying materials to, 301
  - administration of, 300–301
  - benefits of, 294–297
  - budget calendar, 302–303
  - budget document, preparation of, 297–299
  - credit, definition of, 304
  - debit, definition of, 304
  - definition of, 294–295
  - and determination of education program, 296–297
  - dimensions of, 296, 300
  - evaluation of, 301–302
  - expenditures, planning for, 297–299, 301–302
  - hearing, 299–300

Budget *continued*:
  history of budgetary practices, 293–294
  planning-programming-budgeting systems, 311–312
  proper use of funds, 304–305
  purposes of, 295–296
  school level, 303–306
  site-based budget, 313–314
  strategic planning for, 314
  systems analysis approach, 310, 311
  three dimensions of, 296
  Total Quality Management (TQM), 314–315
  zero-based budgeting, 313–314
Building reserve plan, 279–280
  objections to, 280
Burruss v. *Wilkerson*, 226
Buses, insurance for, 352
Bush, George, 199, 214, 260
Bush, George W., 52, 199
Business functions:
  business manager, 338–340
  business office, 338–339
  encumbrances, 310
  insurance, 347–356
  purchase orders, 308–309
  purchasing, 306–310, 341–345
  requisitions, 306–307
  risk management, 347–349
  and superintendent, 339
  supplies/equipment procurement, 340
  supply management, 345–346
Business manager, 339
  role of, 339
Business office:
  functions of, 339
  nature of, 340

California, 169, 252
  accountability, 52, 369
  categorical programs, 103, 182, 183
  foundations as revenue source, 135
  Nordlinger v. *Hahn*, 240–241
  private foundations, 135
  Proposition 13, 182, 239–241
  Proposition 38, 259
  Proposition 98, 182
  Serrano v. *Priest*, 60, 93, 104, 178–179, 218, 228, 239, 268, 388, 389
  Serrano v. *Priest II*, 228–229
  state capital-outlay program, 270
  state finance program, 52, 182–183
  voucher system plan, 259
Call to Action, 93
Callable bonds, 282
Capitalist view, political/economic continuum, 9, 10–11, 116
Carter, Jimmy, 199, 214, 312
Categorical aid, 103, 182, 183, 189, 190, 191
  disadvantages of, 204, 206
  nature of, 204, 206
CCC (Civilian Conservation Corps), 200–201
Center on Education Policy, 35–36
Certification, 369–370, 383–384
  alternatives, 369, 383
  National Board for Teaching Standards, 383–384
  Sylvan Learning Systems, 369–370
  University of Phoenix, 369
Charter schools, 199, 260–262
Cheney, Richard, 48
Child-benefit theory, and church-state relations, 249–251
Children, equity for, 63–64
Church-state relations, 249, 250
  and child-benefit theory, 249–250
  legal provisions for separation, 249
  Lemon test, 247, 388–389, 392
Circuit breakers and property tax, 126–127
Civilian Conservation Corps (CCC), 200–201
Class size, 66
Clearing accounts, 324–325
  transactions under, 324–325
Clinton, William J., 199, 202, 215
  GOALS 2000, 202
Clune, William, 24–25
Coalition for Equitable School Funding v. *State of Oregon*, 230
Cochran v. *Louisiana State Board of Education*, 250
Codification of Governmental Accounting and Financial Reporting Standards, *323*
Coinsurance, 354
Coleman, James, 13, 24
Columbia University, 132
Committee for Economic Development, 36
Committee for Public Education and Religious Liberty v. *Nyquist*, 253
Communist view, political/economic continuum, 9, 10–1
Comparability, 65
Comparing schools, 67
Computerized systems, accounting system, 327–328
Congress, 7, 198
Connecticut:
  privatization, 151
  public funds to nonpublic schools, 250, 251
  state finance program, 183–184
Conservative view, political/economic continuum, 9, 10, 11
Constitution (*see also* specific Amendments):
  Bill of Rights, 92, 166, 249
  omission of education in, 165–166
  provision for educational support, 20, 164
Continental Congress, 164–165, 165, 169
Continuous audits, 331
Coons, John, 24–25, 256
Cooper and Sorrel, 65
Coopers and Lybrand (Price, Waterhouse, Coopers), 65
Cost accounting, 326
  advantages of, 326
Cost of education, 7, 8–9, 30–31, 33, 53–54
  selected per-pupil costs, 68
Cost-quality relationship in education, 23–26
  research on, 23–26
Court decisions (*see also specific cases*):
  and alteration of school finance systems, 60–61
  decision guidelines, 219–221
  and equal protection (pre-1971), 222
  power of courts, 221–222
  and pressure for reform, 237–238
  principles established by, 237
  public funds to nonpublic schools, 246–248, 249–255, 259–260
  state court cases, 233–237
  status of school finance constitutional litigation (2000), 234–237

Crime, insurance for, 352
Cubberly, Ellwood P., 13, 80, 93, 172–174, 177, 178, 193
Culture, and education, 21

Dartmouth College, 133
Data Base Initiative Project (Oregon), 66
Debt limitations, liberalization of, 276
Delaware:
  no established church, 249
  state capital-outlay program, 270
Delegation, from superintendent, 339
Demographics, 38–40, 390
  aid to families with dependent children, 50
  baby boomers/boomlet, 39, 43
  enrollment, 30, 31, 33
  population growth patterns, 40
  population projections, 41
  public relief, 50
Density weighting factors, 108–109
Department of Education, 199, 201, 202–204, 212–215, 213, 261, 329
  functions of, 213
  major challenges to, 215
Department of Health, Education and Welfare, 213–214
Depression (*see* Great Depression)
DeRolph v. *State of Ohio*, 230–232
Desegregation, legislation related to, 92–93, 197–198
Developing countries, education financing, 3–4
DiCenso v. *Robinson*, 251
Disabilities:
  weighting approach for, 109–110
District power equalization, 96–102
  advantages of, 100
  definition of, 97
  models for, 95, 98, 99, 101
"Does Money Matter?" 23, 24, 26
Dropouts, 15, 16, 17, 18
  economic costs to, 48–49

Earnings, average, 17, 18
Economic benefits of education, 15–20, 48–49
Economic growth and education, 3–6, 15–19
Economics:
  education as economic good, 1–3, 4–6, 390
  educational share of gross domestic product, 5
  exclusion principle, 21–22
  inflation effects on education, 34–35, 36, 41–42, 390
  and social progress, 3–4
  views of role of government in, 9, 10–11
Economist, The, 4
Edison Schools, Inc., 151
Edgewood Independent School District v. *Kirby*, 229–230
Education:
  and accountability, 51–53
  cost-quality relationship in, 23–26
  and creation of wealth, 19
  economic benefits of, 15–20
  as economic good, 1–3, 4–6, 39
  as economic growth, 4–6
  external benefits of, 21–22
  as human capital, 14–20
  as industry, 30, 31
  lack of education, effects of, 44–51
  noneconomic benefits of, 20–21
  public responsibility, 7–8
  purpose of, 1, 2, 4–6
  resource allocation to, 8, 19–20, 30–31, 34, 36–37
  scope, 12
Education Consolidation and Improvement Act, 201, 252
Education Cost Sharing Program, 183–184
Education Infrastructure Act, 272
Educational achievement:
  affecting factors, 23, 24–26, 44–51, 63–64
Educational Finance Inquiry Commission, 174
Educational research on cost-quality relations in education, 23–26
Eisenhower, Dwight D., 198
Elementary and Secondary Education Act, 201, 202, 252, 272
  comparability, 65
  supplanting, 65
  supplementing, 65
  Title I, 65, 199, 201, 208
Encumbrance accounting, 310, 325–326
  guidelines for, 326
Energy and cost of education, 41–42
Enrollments, 31, 33–34
  changing, 32
  increasing, 31
  monitoring of, 39
  preprimary, 40
  shifting, 33–34
Equal protection:
  cases related to, 218–219, 222–226
  pre-1971 court cases, 222
Equality in education:
  equal opportunity, 62–63, 92–93
  equity versus equality, 6–7
  in financing education, 59–60, 62–63, 65–67
  meaning of, 59–60
  responsibilities in, 54–55
Equalization:
  Cubberly's contributions, 13, 80, 93, 172–174, 177, 178, 193
  district power equalization, 96–102
  equalized percentage matching (EPM), 96–97
  of federal funds, 207–208
  and foundation program principle, 80, 85, 174–175
  improvement of state equalization practices, 83–85, 178
  Morrison's contributions, 93, 176, 177
  Mort's contributions, 13, 24, 78, 80, 104, 168, 175, 176, 178, 193, 268
  power equalization plan, 96–102, 172–179
  school building costs, 267–268, 268–269, 277–278
  of services, 103–104
  Strayer-Haig concept of, 80, 86, 174, 175–176, 193
  Updegraff's contributions, 86, 93, 176, 177, 178, 268
Equalized percentage matching (EPM), 96–97
  example of, 98
  opponents of, 179
Equalizing grants, 80–81
Equipment:
  bidding for, 344–345
  for children, 63, 64
  differentiation from supplies, 340–341
  distribution of, 346
Equity in education:
  equity versus equality, 7–8, 59–60
  historical influence on, 76–80

Equity in education *continued*:
  horizontal and vertical equity, 63–64
  meaning of, 59–60
  quality versus fiscal equity, 61–62
  school level, 65–67
  school reform objective, 62–67
  for taxpayers, 67–70
Equity in financing education:
  disparities among states, 61
  equity for children, aspects of, 63–64
  equity for taxpayers, aspects of, 67–72
  finance practices used in states, 80–85
  financing programs with unequal amounts per pupil, 79–81
  foundation program principle, 79–80, 174–176
  historical influences on, 76–80
  inequalities in education financing, 62–63
  local district funding, 68–70, 77–78
  and school district wealth, 72–76
  state equalization practices, improvement of, 80–85
  and taxation, 67–72
  weighted-pupil approach, 64, 79–80, 104–112, 188–190
Established Number Reporting (ENR), 104
Everson v. *Board of Education*, 250
Exclusion principle, 21–22
Expenditures, 5
  and the economy, 19, 20
  per pupil, 34
Extended coverage, insurance, 352
External audits, 331–332
Externalities:
  and ability principle, 22, 393
  and benefit principle, 22, 393
  benefits of education, 15–19, 20–21

Facilities:
  bonding system, 280–288
  bonds for financing, 280–281
  building reserve plan, 279–280
  equalization of building costs, 277–278
  equity in financing of, 276–277
  federal government capital-outlay financing, 272–273
  local school district capital-outlay financing, 268–269
  pay-as-you-go financing of, 279
  plans for maximum utilization of, 278–281
  state capital-outlay financing, 270–272
  underutilization of, 41
Family education cycle, 50–51
Federal funds:
  block grants, 202, 206
  categorical aid, 103, 182, 183, 189, 190, 191
  equalization of funds to states, 207, 208
  expenditures, 203–204
  future view, 212–213
  general aid, 204–205, 206, 207
  impact on state funds, 200
  issues related to, 205–206, 208–213
  "pass-through" provision, 252
  purposes of, 197–200
Federal government:
  aid to nonpublic schools, 249–251, 252
  capital outlays, 272–273
  classification of aid measures, 206, 207, 208–210
  constitutional role, 199–200
  Department of Education, 7, 199, 201, 202–204, 212–215, 261, 329
  education funds, 197–199
  facilities financing, 272–273
  federal aid in lieu of taxes, 210
  federal/state/local finance sharing, 208–210, 212–213
  historical role in education, 197–199
  impact aid, 288–289
  role in economics, views of, 7–9, 10–11
  state land owned by, 210–212
Federal Surplus Commodities Corporation, 200
Federalism, 7–8
Finance Analysis Model (FAM), 65
Finance reform (*see* Reform)
Financial Accounting for Local and State School Systems, 323
Financial reporting, 324
  legal requirements, 324
  types of reports, 324
Financing of education:
  confusion in, 86
  courts and (*see* Court decisions)
  district power equalization, 93, 177–179, 181
  education as high-priority area, 35–36, 54
  educational share of gross domestic product, 5
  and energy costs, 41–42, 357
  equity in (*see* Equity in financing education)
  foundation program, 81–85, 98–102, 172–177
  full state funding, 93–96
  future of, 388–396
  goals, 393–394
  grants to local districts, 78–85
  historical view, 171–179
  increasing cost of education, 33–35, 36–37
  inflation effects, 34, 36–37, 41, 42, 390
  lack of, 35
  land grants, 168–170
  lotteries, 132–134
  private foundations, 135
  property assessment in, 124–125
  rate bills, 118
  school-business partnerships, 135–137
  school finance theory, 171–179
  spending increases, affecting factors, 30–35
  taxation in (*see* Taxation/taxes)
  under investing, 53–54
  weighting factors approach, 64, 79–80, 100–102, 104–112, 188–190
Finn, Chester, 149
Fire insurance, 352
  coinsurance, 354
First Amendment, 220, 247, 249, 253, 257, 262–263
Flat grants, 78–79
  and equalization, 80, 181
  nature of, 79–80
Floater, insurance, 352
Florida:
  state capital-outlay program, 270
Forbes, 54
Ford, Gerald, 198
Foundation program principle, 81–85, 98–102, 172–177

  basic standards in, 174–175
  conditions in formula, 83–84
  development of, 174–175
  equalization concept in, 81–82
  problems related to, 84–86
  purpose of, 87
  refinement of, 175–177
  and underassessment of property taxes, 100, 124–125
  variations in application of, 83–85, 180–181
Foundations, 135, 136
Four Objectives of the Educational Policies Commission, 37
Fourteenth Amendment, 63, 222, 224, 240, 249, 262
Friedman, Milton, 9, 10–11, 14, 257
Full state funding, 93–96
  advantages/disadvantages of, 93–94, 96
  examples of plans for, 94–95
  ramifications, 95–96

Galbraith, John Kenneth, 9, 10–11, 14
Gardner, Booth, 8
Gender factors, benefits of education, 15–19
General aid:
  characteristics for effectiveness of, 204–205
  nature of, 204, 206, 207
Georgia, zero-base budgeting, 312
G.I. Bill, 197, 201
Gini coefficient, 74
Glass, insurance for, 352
Goals for education,
  finance, 393–394
  school-business partnerships, 136
GOALS 2000, 202
  Educate America Act, 201–202
Goluba v. *Ripon*, 248
Government Accounting Standards Board, 320, 321, 323–324, 325
Government intervention view, political/economic continuum, 9, 10–11
Grade-level weighting, 109
Grants:
  emergency state capital-outlay grants, 270
  equalizing grants, 78–79
  flat grants, 78–79, 181
  land grants, 164, 168–170
  matching capital-outlay grants, 271
Grants-in-capital-outlay, 272–273
Great Depression, 93, 172, 197, 272
Greenspan, Alan, 2
Greenwald, R., 25
Gross domestic product, education's share of, 5
Groves, Harold, 14

Haig, Robert M., 80, 86, 171, 174, 175–176, 193, 268
Handbooks, accounting, 323–324
Hanushek, E. A., 13, 24
Harvard University, 132, 165
Hawaii:
  number of school districts, 145, 146, 166
  state finance program, 103, 184–185
Hawkins Stafford School Improvement Amendinents, 201
Hayes, Rutherford B., 198
Health costs, 50–51
Hedges, L. V., 25
Hodgkinson, H., 54
Human capital, education as, 2, 14–19, 392
Human resource management:
  administrative/supervisory salaries, 380–381
  benefits, 374–377
  expansion of role, 364–365
  noncertificated personnel salaries, 381
  payroll policies and procedures, 381–383
  problems related to, 364
  teacher salaries, 365–366, 367, 368, 370

Illinois, reorganization of school districts, 148
  McInnis v. *Oglivie*, 222
  McInnis v. *Shapiro*, 222
  tuition tax credits, 260
Illiteracy, 46–47
  rejection from military service, 48
  tests of literacy, 45–46
Impact fees, 288–289
Improving America's Schools Act, 201, 252
Incentive for Excellence program, 135
Incentive funds, 271
Income tax, 75
  ability-to-pay principle, 22, 27, 127–128
  and allocation of funds for school districts, 75
  fairness issue, 128
  personal and corporate taxes, 128
  use by states, 75
Indiana, state capital-outlay program, 270
Inflation, effects on education, 34, 41, 42
Insurance, 347–356
  basic principles, 351–352
  coinsurance, 354
  definition of, 350
  employee benefit, 374–377
  extended coverage, 352, 354–355
  fire insurance, 352
  liability insurance, 352, 355–356
  rates, 353
  school board responsibility, 350–351
  self-insurance, 355
  state regulation of, 356
Internal audits, 331
Iowa, state finance program, 185

Jefferson, Thomas, 132, 165
Jencks, Christopher, 13, 24
Joel Village School District et al. v. *Louis Grumet and Albert W. Hawk*, 253–254
Johnson, Lyndon B., 198
Jones v. *Clear Creek Independent School District*, 248

Kalamazoo case, 92, 218
Kansas, reform legislation, 389
Kennedy, John F., 198
Kentucky:
  Rose v. *Council for Better Education*, 229
  state capital-outlay program, 270
Keynes, John Maynard, 9, 10–11

Labor-intensive nature of education, 25
Laine, R. D., 25
Land grants:
  to finance education, 164, 168–170
  states concerns, 165–166
Latchkey children, 43

- Laws of 1642 and 1647, 165
- Leadership, educational, 315–316
- Leaves of absence, provisions for, 375, 376
- *Lee* v. *Weisman*, 247–248
- *Lemon* v. *Kurtzman*, 247, 251
- *Lemon* test, 247, 388–389, 392
- Liability insurance, 352, 355–356
- Liberal view, political/economic continuum, 9, 10–11
- Lilly Endowment, 65
- Literacy, 46–47
- Local school districts, 77–80
  - administration, 148, 153
  - administrative units, 144–148
  - advantages of local control, 157–158
  - contracts with, 150–152
  - criticisms of, 147–148
  - decreased control of, 142–143
  - district power equalization, 93, 177–179, 181
  - equalizing grants to, 79–80
  - equity in financing education, 62–67
  - facilities financing, 268–272
  - fiscal failures, 144, 150–152
  - fiscal independence of, 158–159
  - fiscal operations, 102–104
  - flat grants to, 78–79
  - guarantees, 152–153
  - measures of local fiscal ability, 159
  - measures of wealth, 72–74
  - number in country, 144–146
  - and property taxes, 153–155
  - relationship to states, 148
  - reorganization and financing of, 77
- Local-state axis, 149
- Local taxes:
  - current taxation trends, 157
  - local fiscal control, 153–155
  - and municipal overburden, 155–157
  - nonproperty taxes, 157
  - property assessment, 70–71, 124–125
  - property taxes, 123–127
  - state responsibility, 159–160
- Lorenz curve, 74
- Los Angeles School District, 146–147
- Lotteries, 132–134
  - historical view, 132–133
  - inefficiency of, 133
  - revenues from, 134
- Louisiana:
  - public funds to nonpublic schools, 250
  - severance tax, 131
  - state finance program, 185–186, 187

- McCloone index, 74
- *McInnis* v. *Ogilvie*, 222
- *McInnis* v. *Shapiro*, 222
- McLure, William P., 13
- Madison, James, 165
- Maine:
  - creation of, 168
  - public funds to nonpublic schools, 252
  - *Sawyer* v. *Gilmore*, 222
- Maintenance costs, 66
- Mann, Horace, 60, 166
- Marginal dollar principle, 12
- Marshall, Thurgood, 219, 233
- Marx, Karl, 9, 10–11
- Maryland, 178
- Massachusetts, 168
- *Meek* v. *Pittenger*, 250
- *Meeting the Needs of Education Policy Makers*, 394–395
- Merit pay, 370–373
- Michigan:
  - charter schools, 262
  - nonproperty taxes, 157
  - power equalization plan, 178
  - property tax, 126
  - state finance programs, 186–188
- Military service, rejection of illiterates from, 48
- Milwaukee Parental Choice Plan, 258
- Minimum Expenditure Requirement (MER), 183–184
- Minimum Foundation Program (MFP), 185–186, 187
- Minnesota:
  - charter schools, 262
  - public funds to nonpublic schools, 252
  - tuition tax credits, 260
  - *Van Dusartz* v. *Hatfield*, 225–226
- Minorities, 43–44, 390, 393
- Mission statement, 314
- Mississippi, 252
- Missouri:
  - court case, 252
  - facilities, 276
  - public funds to nonpublic schools, 250
- *Mitchell* v. *Helms*, 255, 388, 392
- Morrill Acts, 197
- Morrison, Henry C., 93, 176–177
- Mort, Paul, 13, 24, 78, 80, 104, 168, 175, 176, 178, 193, 268
- *Mueller* v. *Allen*, 252
- Municipal overburden, 125, 155–157

- "Nation at Risk," 1, 35, 93, 201, 238, 239, 388
- National Association of Partners in Education, 136
- National Board for Professional Teaching Standards, 383
- National Commission on Excellence in Education, 238–239
- National Committee on Governmental Accounting, 321
- National Defense Education Act, 201, 252
- National Institute of Education, 26
- National School Lunch Program (NSLP), 357–359
- National Study of Charter Schools, 261
- National Youth Administration, 200
- NEA (National Education Association), 273
- Necessarily Existent Small Schools, 106–108
- Nevada, school district reorganization, 77
- New American Schools Development Corporation, 215
- *New Compact for Learning, A*, 62
- New Hampshire, lottery, 132
- New Jersey:
  - *Abbott* v. *Burke, Abbott II*, 233
  - *Everson* v. *Board of Education*, 250
  - expenditures per pupil, 189
  - Passaic, 371
  - public funds to nonpublic schools, 250, 252
  - *Robinson* v. *Cahill*, 232–233
  - state capital outlays, 276
- New Mexico:
  - land grants, 169
  - zero-base budgeting, 312
- New York (state):
  - facilities, 276
  - power equalization plan, 97, 178
  - public funds to nonpublic schools, 252

  Spano v. *Board of Education*, 226
  state capital-outlay program, 270
Nixon, Richard M., 198
Noncertificated personnel, salaries, 381
Nonpublic schools, 388–389
  approaches to choice, 255–262
  charter schools, 199, 260–262
  child benefit theory, 249–250
  church-state relations and law, 249, 250
  court decisions related to, 249–255
  educational choice issue, 255–262
  enrollments of, 248–249
  federal aid to, 249, 252
  proponents and opponents of federal aid to, 247
  tuition tax credit plan, 259–260
  voucher system, 257–259
Nordlinger, Stephanie, 240
Nordlinger v. *Hahn*, 240–241
North Carolina, nonpublic school enrollments, 249
North Dakota, disparities in funding, 6
Northwest Ordinances, 164, 165–166, 168, 169, 197, 199–200, 204, 218

Occupational preparation and lack of education, 49
Ohio:
  DeRolph v. *State of Ohio*, 230–232
  facilities, 278
  imbalance in school district funds, 61
  land grants, 169
  public funds to nonpublic schools, 249
Oklahoma:
  public funds to nonpublic schools, 249
  severance tax, 131
Open-end equalization plan (*see* Equalized percentage matching [EPM])
Ordinances of 1785 and 1787, 164, 165–166, 168, 169, 197, 199–200, 204, 218
Oregon:
  Coalition for Equitable School Funding v. *State of Oregon*, 230
  Database Initiative Project, 66
  section 16, 169
  state capital-outlay program, 270
Oregon v. *Hass*, 228

"Pass-through" provisions, 252
Passaic, New Jersey, 371
Pauley v. *Bailey*, 274–275
Pay-as-you-go financing, 279
Pearson coefficient of correlation, 74
Pennsylvania:
  no established church, 249
  public funds to nonpublic schools, 247–248, 249–251
  privatization, 152
  state capital-outlay program, 270
Personal leaves, provisions for, 375
Personal property taxes, 127
Personnel administration (*see* Human resource management)
Phi Delta Kappa Commission on Alternative Designs for Funding Education, 37–38
Phi Delta Kappa Gallup Poll, 37–38, 258, 389
Picus, Lawrence O., 26
Pierce v. *Society of Sister*, 247
Planning and budget process, 294–295
Planning-programming-budgeting systems (PPBS), 311–312
Pluralism, 7
Point of diminishing returns, in education expenditures, 13–14
Political responsibility, 8
Population (*see* Demographics)
Poverty and lack of education, 42, 44, 50
Powell, Lewis F., 218–219, 233
Power equalization plan, 93, 177–179, 181
Preaudits, 332
Preschool programs, enrollment increases, 39–40
Princeton University, 133
Principal:
  accounting practices, 306–310, 328–329
  administering the budget, 300–301
  encumbrance accounting, 310
  expending funds, 301–302
  proper use of funds, 304–305
  purchase orders, 308–309
  requisitions, 306, 307
  school chief financial officer, 306–310
  use of student fees, 304–306
Prisoners, 49
Private education (*see also* Nonpublic schools):
  and improvements in school, 7–8
Private foundations, 135, 136
Privatization, 150–152
  Edison Schools, Inc, 151
  Education Alternatives, Inc., 150
  Public Strategies Group, 152
  Tesseract Group, 151
Progressive tax, 71, 122
Property tax, 123–127, 269
  ad valorem, 123
  assessed value of property and taxation, 70–71
  assessment practices, 102
  circuit breakers, 126–127
  criticisms of, 125–126
  desirable traits of, 124
  historical view, 123–124
  improving administration of, 158–159
  local level, 157–158
  market value, 67
  overreliance of school districts on, 154–155
  personal property taxes, 127
  rate bills, 118
  real and personal property, 123
  site-value tax plan, 132
Proportional tax, 71, 12
Proposition 13, 239–241
Proposition 38, 259
Proposition 98, 192
Public assistance and lack of education, 49–50
Public education:
  accountability, public demand for, 37, 38, 258, 389
  extension of services, 41
  parents' rating of schools, 37–38, 389
  use of school facilities, 41
Public Law 815, 272, 404
Public Law 874, 404, 407
Public-sector responsibility, 7
Public Strategies Group (PSG), 152
Public Works Administration, 201, 272
Pulido v. *Cavazo*, 252
Purchase orders, 308–309, 329
Purchasing, 306–310, 341–345
  bidding, 344–345

- Purchasing *continued*
  - purchasing policies, 342–343
  - quantity purchasing, 344
  - requirements of purchasing practices, 342–343
  - standardization of, 343–344

- Quality of education, cost-quality relationship, 23–26

- Rate bills, 118
- Reagan, Ronald, 199, 214
- Recapture, 80, 83, 180, 181
- Reform, 232–233, 239, 241
  - court decisions as impetus to, 232–237
  - and finance studies, 237–239
  - limitations to, 239
  - Proposition 13, 182, 239–241
  - versus tax reduction, 239–241
- Region VIII HEW, 51
- Regressive tax, 71, 120
- Rehabilitation Act of 1973, 198
- Requisitions, 306, 307, 329
- Research limitations, 23–26
- Resource allocation to education, 8–12
  - marginal dollar principle, 12–13
  - philosophical views, 9, 10–11
  - point of diminishing returns in education expenditures, 13–14
  - political responsibility in, 7–8, 8–9
  - supply of education, determinants of, 12–14
- Retention, teaching personnel, 379–380
- Retirement, benefit provisions, 375
- Reusser, Walter C., 24, 104
- Revenue by source of funds, 31
- Rhode Island:
  - no established church, 249
  - power equalization plan, 97, 178
- Riley, Richard, 215
- Risk management, 347–349
  - and increasing safety hazards, 349
- *Robinson* v. *Cahill*, 232–233
- Rodriguez case (*see San Antonio Independent School District* v. *Rodriguez*)
- *Rose* v. *Council for Better Education*, 64, 177, 229–230
- Rural areas:
  - decreasing influence on education, 143–144
  - one-teacher schools, 143
- Safety, 347–348, 349–350
  - determination of school safety, 349–350
  - safety committee, 350
  - types of hazards in schools, 349
- Salaries:
  - administrators/supervisors, 380–381
  - noncertificated personnel salaries, 381
  - problems related to salary systems, 365–374
  - teacher salaries, 365–366
- Sales tax, 128–129
  - recommended improvements to, 129
  - value as revenue source, 128
- *San Antonio Independent School District* v. *Rodriguez*, 53, 179, 218, 220, 226–228, 237–238, 268, 389
  - consequences of, 227–228
  - court findings in, 226–228
  - facts of case, 226–227
  - state cases, subsequent to, 228–232
- *Sawyer* v. *Gilmore*, 222
- School board, 144–147, 350–351
- School boundaries, 66
- School buildings (*see* Facilities)
- School-business partnerships, 135–137
  - goals of, 136
  - nature of, 135–136
- School districts (*see* Local school districts)
- School finance:
  - goals of, 388–389
  - teachers, 377–378
- School finance theories: 171–179
  - Cubberly's contributions, 13, 80, 93, 172–174, 177, 178, 193
  - district power equalization, 93, 96–102, 177–179, 181
  - equalization of educational opportunity, 174–175
  - foundation program concept, 174–177
  - local responsibility for schools, 171–172
  - Morrison's contributions, 93, 176–177
  - Mort's contributions, 13, 24, 78, 80, 104, 168, 175, 176, 178, 193, 268
  - stages in development of, 171–179
  - state allocations to local districts, 172–173
  - Strayer-Haig's contributions, 80, 171, 174, 175, 176, 193, 268
  - Updegraff's contributions, 86, 93, 176, 177, 178, 268
- School level:
  - balance sheet, 328
  - budgeting, 303–306
  - equity, 65–67, 68
  - monthly report, 304–305
- School year:
  - and utilization of school facilities, 41, 289
  - year-around system, 289
- Schultz, Theodore, 14
- Scrutiny:
  - intermediate, 220
  - reasonable, 220
  - strict, 220–221
- Section 16, 169, 218
- Section 504, 198
- Self-insurance, 355
- Separation of church-state, 249
- Serial bonds, 281–282
- *Serrano* v. *Priest*, 60, 93, 104, 178–179, 218, 228, 239, 268, 388, 389
  - consequences of, 224–225
  - rationale of court in, 223–224
  - state cases subsequent to, 225–226
- *Serrano* v. *Priest II*, 228–229
- Services, equalization of, 103–104
- Seven Cardinal Principles of Secondary Education, 37
- Severance pay, provisions for, 376
- Severance tax, 130–131
- Shannon, Thomas, 149–150
- Sick leave, provisions for, 375
- Single-parent families, 42–44
- Site-based budget (SBB), 313–314
- Site-value tax, nature of, 132
- *Sloan* v. *Lemon*, 253
- Small schools, effectiveness of, 86, 147–148
- Smith, Adam, 9, 10–11
- Social factors, 42–51
  - effects of lack of education, 44–47
  - high health costs, 50–51
  - literacy, 45–46
  - military service incapability, 48
  - poverty, 49–50
  - prison incarceration, 48, 49

  public relief, 50
  single-parent families, 43–44
  unemployment, 47
Social progress and economics, 2
Social security, benefit provisions, 375
South Dakota, 270
South Haven, Michigan, 370
Spano v. *Board of Education*, 226
Sparsity weighting factors, 105–108
Spearman rank order correlation, 74
Special education weighting, 109–110
Springfield Township v. *Quick et al.*, 218
Sputnik, 1, 93, 197, 201
State audits, 331
State-federal axis, 149
States:
  ability to support education, measurement of, 189–194, 193
  constitutional right to control of schools, 152–153, 165
  court cases related to school financing, 233–237
  educational system, development of, 166, 167–168
  equity in education issue, 62–70
  facilities financing, 270–273
  federal funds to, 204–205
  foundation program, 81–85, 174–177
  full state funding, 93–96
  grants to local districts, 76–77, 78–80
  land grants, 168–170
  limitations on local tax rates, 123–126, 153–157
  purposes of state financial support, 189–193
  school finance theories, stages of, 165–179
  shifting enrollments, 32, 33–34
  state budgets spent on education, listing of states, 192
  state lottery revenue, 134
  state support of education, historical view, 171–179
Statistical approaches, fiscal equalization analysis, 74
Status of school finance constitutional litigation (2000):
  litigation present, no supreme court decision, 235–237
  no litigation or dormant, 237
  plaintiffs lost, further complaints filed, 236
  plaintiffs lost, no further complaints filed and/or lost, 235–236
  plaintiffs won, further litigation filed, 235
  plaintiffs won at state supreme court level, 235
Stiefel, Leanna, 93
Storage of supplies, 345–346
Straight-term bonds, 282
Strategic planning, 314
Strayer, George D., 80, 171, 174, 175, 176, 193, 268
Stuart v. *School District No. 1 of the Village of Kalamazoo* (*Kalamazoo* case), 92, 218
Student enrollment, increases/decreases by geographic area, 32, 33–34
Sugarman, Stephen, 24–25, 256
Sumptuary taxes, 130
Superintendent, 144
  and budget, 300–303
  and business manager, 338–340
  delegation of responsibilities, 339
  and development of educational programs, 296
  role of, 300–303, 338–339
Supervisors, salaries, 380–381
Supplanting, 65
Supplementing, 65
Supplies:
  differentiation from equipment, 340–341
  management, 345–346
Surety bonds, 334–345
Systems analysis:
  and administration, 310–315, 327–328
  and budget development, 310–316

Tax Equity and Fiscal Responsibilities Act (TEFRA), 282–283
Tax levy, 69, 188–189, 190
  rate, 67, 123, 124, 188–189, 190
Tax rate, 67, 123, 124, 188–189, 190
Tax rate limit, 123, 239–241
Tax shelters for teachers, 376
Taxation/taxes (*see also* Income tax; Local taxes; Property tax; Sales tax):
  ability principle, 22, 127, 392
  assessed property valuation per capita, 73–74
  assessed property valuation per pupil, 72–74
  basis of taxation, 2, 3, 6, 10
  benefit system of, 21–22, 392
  board leeway, 83–84
  citizens' fair share 119
  collection costs, 121
  convenient, 121
  coordination of tax systems, 119, 159–160
  diversification of taxes, 118–121
  earmarking of taxes, 122
  economic neutrality, 119
  for education, historical view, 123–127
  evaluation of tax system, criteria for, 118–123
  exclusion principle, 21–22
  good tax system, characteristics of, 118–123
  income tax, 75
  justification for higher taxes for education, 35, 36–38
  limitations, 123, 239–241
  progressive tax, 71–72, 120
  property tax, 123–127, 269
  proportional tax, 71–72, 120
  purpose of taxation, 2, 116–117
  regressive tax, 71–72
  sales tax, 128–129
  severance tax, 130–131
  site-value tax, 132
  sumptuary tax, 130
  tax erosion, 120
  tax shifting, 121, 153–154
  types of education financing, 22, 117–118, 122–123, 123–125
  value-added tax, 132
  voted leeway, 100–102
  wealth tax, 75–76
  yield, 120
Taxpayers, equity for, 67–72
Teacher:
  qualifications, 369
  weightings and state foundation programs, 110–112
Teacher assignments, 378–379
  and teacher turnover, 379–380

Teacher assignments *continued*
  and technology, 379
  number, 30, 32, 34
Teacher salaries, 365–366
  average salaries, 368
  extra-duty salary supplements, 373
  merit provisions, 370–373
  salary schedules, 370, 371, 372, 373–374
  salary scheduling problems, 365
  starting salaries, comparison, 365, 366
  trends in salary scheduling, 365
Technology and teacher assignments, 379
Ten Imperative Needs of Youth, 37
Tennessee, 276
Tenth Amendment, 152, 166, 168, 199, 392
Texas:
  comparison, graduates-prisoners, 49
  disparity in funding, 61
  Edgewood Independent School District v. *Kirby*, 229–230
  facilities, 276
  number of school districts, 145, 146
  San Antonio Independent School District v. *Rodriguez*, 53, 179, 218, 220, 226, 228, 237–238, 268, 389
  severance tax, 131
  zero-base budgeting, 312
Theil index, 74
Tilton v. *Richardson*, 251
Title IX, 198
Total Quality Management (TQM), 314–315
Transportation, 356–357
Truman, Harry, 198
Tuition tax credit, 256, 259–260
Tuition Tax Credit Act, 260
Turnover of teachers, 379–380

Unemployment and lack of education, 44–45, 47
Unfunded Mandates Act, 202
Uniform School fund, 80, 188–189
United States Chamber of Commerce, 65
United States Constitution, 92, 152, 153, 165, 166, 199, 218
United States Supreme Court, 53, 129, 218, 221, 228, 240, 246, 249, 253
Updegraff, Harlan, 86, 93, 176, 177, 178, 268
Urban areas:
  decreasing economic advantages, 144
  financial problems, affecting factors, 155–156
  municipal overburden, 155–157
  socioeconomic changes to, 44–50
Utah:
  expenditures per pupil, 189
  risk management, 348
  school district reorganization, 77
  school land sections, 169
  sparsity weighting formula, 105–109
  state finance program, 188–189
  tax rate, 188

Value-added tax, 13, 132
Van Dusartz v. *Hatfield*, 225–226
Verstegen, Deborah, 25, 26, 74
Vincent v. *Voight*, 231–232
Virginia, 199
  Barrus v. *Wilkerson*, 226
  disparity in funding, 61
  supreme court ruling, 228
Vocational Rehabilitation Act, 201
Voted leeway, 100–102
Vouchers, 258–259
  advantages/disadvantages of, 257–258
  experiments, 251–257
  variations in, 258–259

Wall Street Journal, 54
Walz v. *Tax Commission*, 253
Washington, George, 165, 167
Washington County, 372
Washington (state):
  state capital-outlay program, 270
  Witters v. *Washington Department of Services of the Blind*, 250
Wealth, elements in creation of, 19
Wealth tax, 75–76
Weighted-pupil approach, 64, 79–80, 100–102, 104–112, 188–190
  density weighting factors, 108–109
  equity aspects, 64, 85–86
  and foundation program, 82–87
  grade-level weighting, 109
  miscellaneous weighting factors, 112
  nature of, 64, 94–95
  necessarily existence small schools, 106–108
  sparsity weighting factors, 105–108
  special education weighting, 109–110
  teacher qualification factors, 110–112
West Virginia:
  Pauley v. *Bailey*, 274–275
  public funds to nonpublic schools, 252
  school district reorganization, 77
  state capital outlays, 274–275
William and Mary College, 133
Wisconsin:
  power equalization plan, 97, 178
  public funds to nonpublic schools, 250
  reward for effort, 97
  Vincent v. *Voight*, 231–232
  voucher plan, 258
Witters v. *Washington Department of Services for the Blind*, 250
Wolman v. *Walter*, 250
Worker's compensation, provision for, 376
Works Progress Administration, 272
World Bank, 2
World War I, 93, 200
World War II, 93, 197, 201, 213
Wyoming, 228

Yale University, 133

Zero-base budgeting (ZBB), 312–313

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